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DOMINION BUREAU OF STATISTICS

OTTAWA - CANADA

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QUARTERLY

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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FIRST QUARTER 1961

In the first quarter of 1961 Canada's current payments to other countries exceeded current receipts by \$361 million, which compares with \$328 million in the same period of 1960, but is less than in the first quarters of 1956, 1957 and 1959. Virtually all of the deficit, \$353 million, originated in non-merchandise transactions which were in greater imbalance than in any preceding quarter, with unusually large payments of dividends and rising interest payments coinciding with a seasonally large payments balance on travel account. In contrast, merchandise trade was close to balance, the import balance of \$8 million comparing with \$44 million last year and much larger deficits from this source in the first quarters of recent preceding years.

Direct investment capital continued to flow into Canada at a rate which was high by historical comparisons, while there were renewed inflows from transactions in portfolio Canadian securities. Capital in short-term forms made up a substantial part of the net capital movement into Canada in the quarter. Official holdings of gold and foreign exchange were increased substantially, but reductions in other holdings were a significant offset. International money market transactions appear to be playing an increasingly important role in Canada's international accounts. Among the direct effects is a substantial non-resident demand for Canadian treasury bills, commercial, and acceptance paper.

Contraction in import balance on merchandise trade

Canada's merchandise trade was close to balance in 1961 with small declines from the previous year in both exports and imports. As the reduction in imports was more than in exports, the import balance of \$44 million in the first quarter of 1960 turned into one of only \$8 million in 1961.

Further rises in exports to overseas countries were the outstanding feature of Canadian exports in the first quarter of 1961. The level was higher than in the same period of the previous year to each of the United Kingdom, the Rest of the Sterling Area and other countries. Prominent among increases to the latter group were larger shipments to Japan. In contrast exports to the United States were less than in the same period of 1960 when demands for some commodities had been particularly high.

In the early months of 1961 exports of many primary commodities and industrial materials to overseas countries were larger than in the previous year. In the case of some like wheat, shipments were substantially higher. Larger shipments also characterized some of the metals and forest products to overseas countries. In contrast there were some declines in metals to the United States, of which the drop in uranium shipments was the most outstanding.

Imports in the quarter were some 4 per cent lower than in 1960 after adjusting totals for balance of payments purposes. Most of the decline occurred in purchases from the United States. Imports from overseas were generally maintained in total but in the case of imports from the United Kingdom there was some reduction in the total of commodities other than aircraft. While imports from all countries of some commodities like steel, automobiles and certain kinds of machinery were less in 1961, there were increases in some like crude petroleum and some other industrial materials as well as large deliveries of aircraft.

Rising deficit from transactions in services and other non-merchandise items

The deficit from "invisible" transactions rose sharply in the first quarter to an estimated total of \$353 million, which was higher than that of any previous quarter and about the level of the average of the annual deficits for 1952 and 1953. The receipts in the March quarter of 1961 of \$319 million from transactions in services were a shade above those in the same period of 1960, but

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total payments advanced from \$601 million to \$672 million. The widening in the non-merchandise deficit by \$69 million from \$284 million in the first quarter of 1960 was concentrated mainly in the income account and to a much lesser degree in the travel account.

The rapid rise in the share of the deficit attributable to the income account from under 40 per cent to 47 per cent in the three months of 1961, however, appears to have been in some measure due to a shift from the last quarter of 1960 in dividend payments by Canadian subsidiaries to their non-resident parents. Between the March quarters of 1960 and 1961, total payments of interest and dividends climbed from \$147 million to \$200 million, with more than four-fifths of the increase being derived from dividends, while receipts of interest and dividends remained practically unchanged at \$34 million. As profits of branches and dividends paid by public companies were somewhat lower, dividend payments by subsidiaries accounted for about \$45 million of the extraordinary expansion. There were also income remittances of a non-recurring type totalling some millions of dollars. Higher payments of interest followed large issues of provincial, municipal and corporate bonds in the early part of 1960.

Net payments on travel account increased \$11 million from \$76 million to \$87 million, which caused nearly one-fourth of the deficit from service transactions in the current period under review. The rise in the spending by Canadian tourists abroad outweighed the small gain in expenditures by foreign visitors in Canada. Small and equal gains in both receipts and payments for freight services and inheritances and migrants' funds left the deficits of \$17 million and \$20 million from the two sources unchanged in 1961 from those of the first quarter of 1960. Larger per capita funds tended to counteract the decline in the number of immigrants arriving in Canada. About \$5 million was added to the non-merchandise deficit by a decline in gold production available for export from \$44 million to \$41 million and by an increase in official contributions from \$10 million to \$12 million. Net payments on all other current transactions of \$92 million, which accounted for more than 25 per cent of the "invisible" deficit in the three months of 1961, compared with the total of \$93 million for the same period of the preceding year.

Transactions by areas

The expansion of \$33 million, or 10 per cent, in the current account deficit from \$328 million to \$361 million in the March quarter of 1961 was made up of an increase of \$104 million in the current deficit with the United States, offset in part by a larger surplus with the overseas countries. More than one-half of the deterioration in the current balance with the United States was attributable to non-merchandise transactions, while the increased surpluses with the United Kingdom and Other Countries took place entirely in merchandise trade, as the deficits on service transaction continued to grow moderately. The \$47 million rise from \$174 million to \$221 million in the import balance on merchandise trade with the United States followed decreases both in merchandise exports and imports, with the decline in the former being about twice that of imports. On the basis of preliminary returns, merchandise exports were estimated at \$670 million in the three months of 1961, as compared with \$769 million in the corresponding quarter of the previous year, and merchandise import totalled \$891 million and \$943 million in the same two respective periods. Shipments of uranium were substantially lower and exports of other metals and some manufactured goods also appeared to be reduced. There were evidences of lowered imports of semi-finished steel and some types of machinery

More than four-fifths of the \$57 million rise in the deficit on the "invisibles" with the United States was concentrated in the income account, while the remaining 18 per cent of the increase was distributed among other items, including the decline of \$3 million in gold production available for export. With no change in the totals of interest and dividend receipts between the March quarters of 1960 and 1961, the expansion of \$47 million in the income account deficit originated from higher payments of interest and, in particular, of dividends by Canadian subsidiaries. The comments already made in the text relating to the unusual development in the current quarter in transactions covering interest and dividends with all countries are equally pertinent to the United States.

In transactions with the United Kingdom, a gain of \$33 million in merchandise exports from \$209 million to \$242 million in the first quarter of 1961 combined with a decline of \$7 million in imports from \$141 million to \$134 million produced a \$40 million rise in the surplus on merchandise trade. Larger shipments were indicated in early months of the quarter in tobacco, lumber, semi-finished steel and metals such as copper and platinum, while exports of other commodities such as uranium and aluminum were lower. Wheat shipments continued at about the level of the previous year. Small and offsetting changes in the balances on various service transactions had the net effect of widening the deficit by \$6 million from \$44 million to \$50 million. The largest element among the changes was a \$6 million increase in the net payments of interest and dividends to \$30 million, which represented 60 per cent of the deficit on non-merchandise transactions in the current quarter.

Summary of Current Transactions with the
United States, United Kingdom and Other Countries

First Quarter 1960 and 1961,
and Changes between the Periods

(millions of dollars)

	<u>All Countries</u>			<u>United States</u>		
	1960	1961	Change	1960	1961	Change
Merchandise exports (adjusted)	1,283	1,261	- 22	769	670	- 99
Merchandise imports (adjusted)	1,327	1,269	- 58	943	891	- 52
Balance on merchandise trade	- 44	- 8	+ 36	-174	-221	- 47
Other current receipts	317	319	+ 2	232	231	- 1
Other current payments	601	672	+ 71	410	466	+ 56
Balance on non-merchandise transactions	- 284	- 353	- 69	-178	-235	- 57
Current account balance	- 328	- 361	- 33	-352	-456	-104

	<u>United Kingdom</u>			<u>Other Countries</u>		
	1960	1961	Change	1960	1961	Change
Merchandise exports (adjusted)	209	242	+ 33	305	349	+ 44
Merchandise imports (adjusted)	141	134	- 7	243	244	+ 1
Balance on merchandise trade	+ 68	+108	+ 40	+ 62	+ 105	+ 43
Other current receipts	38	38	-	47	50	+ 3
Other current payments	82	88	+ 6	109	118	+ 9
Balance on non-merchandise transactions	- 44	- 50	- 6	- 62	- 68	- 6
Current account balance	+ 24	+ 58	+ 34	-	+ 37	+ 37

A surplus of \$37 million evolved from transactions with Other Countries; and in magnitude and in the manner of development, the improvement in the current account balance with this group was similar to that with the United Kingdom. Exports to Other Countries advanced \$44 million from \$305 million to \$349 million; imports were practically unchanged at \$244 million in the first quarter of 1961; and the deficit on "invisible" transactions were \$6 million higher. Within the Other Countries group the improvement in the current balance was distributed among the Rest of the Sterling Area, Other Metropolitan OEEC and "other countries" approximately in the ratio of 2, 1 and 2, with about the same absolute gains in the trade surplus being recorded in each area but with most of the \$6 million increase in the non-merchandise deficit occurring with the OEEC countries. Exports to Japan continued to advance moderately in the three months of 1961, with larger shipments of wheat, seeds and some metals, such as refined copper.

Capital movements

The capital account of the balance of payments reflects the continuation in the first quarter of 1961 of inflows for direct investment at a level close to that prevailing near the close of 1960, but well below the record inflow established earlier in the year. The proportion not directly related to new capital formation was larger than in the final quarter of 1960. Outflows of Canadian capital for direct investment in other countries were at their highest level since 1956 but also reflected some acquisitions of existing concerns. There was a marked resurgence of interest by non-residents in Canadian securities and increased recourse by Canadian borrowers to foreign markets. Official holdings of gold and foreign exchange were increased substantially, but other Canadian holdings of foreign exchange were reduced. A factor of considerable significance is the increasing activity in the money market in Canada and elsewhere. This has manifested itself in the sale to non-residents of short-term instruments in Canadian dollars such as treasury bills, and commercial and acceptance paper. Widespread and rapid shifts of international balances, which tend, of course, to be concentrated in the currencies in more general international use, have also been discernible in Canadian statistics.

Capital movements in the long-term forms shown separately in statements of the Canadian balance of payments led to a net capital inflow of \$153 million in the first quarter. (This was equivalent to about 42 per cent of the current account deficit in rather sharp contrast with the first quarter of 1960 when the inflow of \$401 million in these forms was about a fifth greater than the deficit on current account; however in the final quarter of 1960 the net inflow in these forms was only \$53 million, equal to 17 per cent of the deficit.) Capital movements in other forms included outflows of \$8 million reflecting reduced Canadian dollar holdings of foreigners and of \$105 million representing the accumulation of official holdings of gold and foreign exchange. The category of all other capital movements showed a net inflow of \$321 million.

The net movement of foreign capital into Canada for direct investment in foreign-controlled enterprises during the first quarter is tentatively placed at \$120 million. This is about \$10 million smaller than in the final quarter of 1960, and about \$90 million smaller than in the corresponding quarter of that year. The inflow in the first quarter of 1960, including some acquisitions by non-residents of existing Canadian enterprises, was the highest on record but the inflow in the first quarter of 1961 was as large as any other first quarter on record.

Net movements of direct investment capital into the petroleum and natural gas industry and into mining and smelting represented somewhat more than half of the total, in the first quarter of 1961, but were of relatively smaller importance than in 1960. Important amounts of capital were directed to manufacturing, real estate, and merchandising. A minor but significant part of the inflow - relatively as much as in the first quarter of 1960, and more than in the final quarter - involved the acquisition of existing enterprises, refinancing and similar transactions not directly related to current capital formation in Canada. Somewhat under three-quarters of the net inflow in the first quarter was from the United States, and about one-quarter was from the United Kingdom.

The net outflow of Canadian capital for direct investment abroad during the quarter is tentatively estimated at \$35 million. Significant amounts of capital were transferred to Canadian enterprises abroad, and in addition Canadians acquired control of a number of foreign enterprises outside Canada.

Transactions in long-term Canadian portfolio securities brought \$65 million into Canada in the quarter. This was a change of \$121 million from the preceding quarter, when these transactions led to a capital outflow of \$56 million, but the inflow was much smaller than the inflow of \$193 million in the first quarter of 1960 or than in earlier first quarters since 1955. The total included \$80 million from the sale to non-residents of new issues, mainly of corporations and provincial authorities, \$31 million from the net sale of outstanding Canadian bonds and debentures, mainly Government of Canada direct and guaranteed issues, and \$13 million from the net sale of outstanding Canadian stocks. Retirements of foreign-held Canadian securities, on the other hand, totalled \$59 million, made up for the most part of corporation issues.

Transactions in foreign securities were in balance during the first quarter. In the final quarter of 1960 they gave rise to a net capital export of \$29 million, and in the first quarter of that year to a net capital import of \$13 million.

Intergovernmental loans gave rise to a capital inflow of \$3 million as India made the first repayment of principal under a special loan for the purchase of wheat and flour.

Canadian dollar holdings of non-residents fell slightly during the quarter. This capital export followed inflows in this form of \$120 million during the last half of 1960. Substantial changes in the composition and ownership of the holdings are concealed within the comparatively small net movement in the first quarter. The rapid shifts of short-term funds which have been characteristic of the international money markets have not been without effects on Canada.

Included in the net movement was the addition by non-residents of about \$30 million to their holdings of Canadian treasury bills, bringing the total to about \$150 million. Sales to non-residents during the quarter aggregated nearly \$160 million but there were, of course, substantial maturities as well as repurchases. The inward movement was concentrated in the month of March when there were sales of more than \$85 million and non-resident-owned holdings rose by nearly \$50 million; during most of the month treasury bill yield differentials between Canada and the United States, after exchange protection, ranged between three-quarters and one per cent. Offsetting the increased Canadian dollar holdings in this form were sharp declines in deposits belonging to non-residents; the net decrease was \$38 million which was in turn made up of both substantial increases and decreases.

Some indication of dispersion of the changes may be gained from their broad geographical distribution. Residents of the United States added some \$44 million to their Canadian dollar holdings, while holdings of residents of the sterling area fell by \$7 million and those of residents of other overseas countries fell by \$45 million.

Canada's official holdings of gold and foreign exchange increased substantially during the quarter. This increase in external assets represented a capital export of \$105 million. The change was the largest in any quarter since the termination of foreign exchange control in 1951. The movement was practically all in holdings of United States dollars, and brought Canada's official holdings of gold and United States dollars at the end of the quarter to \$1,935 million in terms of United States currency. Well over half the increase occurred in January.

All other capital movements are estimated to have given rise to a net capital import in the first quarter of \$321 million. This striking figure is very much larger than in any earlier quarter covered by official estimates. It is clear that the development and extension of the short-term money market in this country have effects on our balance of payments, while international movements of short-term capital on a world-wide scale have been too widely recognized and discussed to require more than mention here. In general, there have been shifts of short-term financial capital, both foreign and Canadian-owned, from the United States and some other areas to Canada, offset in part by Canadian movements into short-term sterling assets.

There was a substantial credit in the Canadian balance of payments in the first quarter arising from a reduction of private and banking holdings of foreign exchange. This was of the order of \$100 million, representing a significant reversal of the capital export aggregating \$160 million now recorded for the acquisition of such holdings during 1960 as a whole.⁽¹⁾ The movement in the first quarter involved an inflow of the order of \$160 million through reductions in holdings of United States dollars, offset by increased holdings of about \$60 million of sterling. It is perhaps significant that in the middle of the quarter United Kingdom 3-month treasury bill yields were more than $1\frac{1}{2}$ per cent above Canadian, and well over $\frac{3}{4}$ of one per cent higher after provision for exchange protection. On the other hand the yield on United States bills was below the Canadian yield, both before and after exchange protection.

In the light of this net movement of about \$60 million in a period of fifteen months, it will be of some interest to note that foreign currency deposits with the Chartered Banks of Canada as a whole rose in the same period from about \$2,372 million to \$2,835 million, while their net foreign assets, after provision for reserves, increased from \$21 million to \$55 million. There are many factors entering into the reconciliation between the series appropriate for the balance of payments and the Statutory Returns of the Chartered Banks. Some of the reported deposits form part of the operations outside Canada of the banks, while some which are in Canada are not assets of Canadian residents or are associated with loans in foreign currency to Canadian residents and are not foreign assets from the point of view of the Canadian economy as a whole. On the other hand there are important foreign currency deposits held directly outside Canada by residents other than the banks.

Also reflecting money market developments, sales to non-residents of short-term commercial paper have been of increasing importance, and probably accounted for about \$60 million of capital inflow to Canada in the first quarter of the year. In addition, borrowings from non-residents by finance companies, including sales of acceptance paper, accounted for about \$10 million.

⁽¹⁾ Subject to further revision. The capital import of \$78 million previously shown for this series reflected large reporting errors by some respondents, invalidating some of the comment in the text of the last issue.

Among other inward movements recorded in the first quarter were capital transfers by insurance companies, and reductions of loans to non-residents. On the other hand there were outflows covering the repayment of loans from United States banks by some Canadian corporations. There were large movements in both directions arising from open inter-company and other commercial accounts. Also included is the balancing item reflecting the difference between the estimated current account balance and the capital movements for which quarterly data have become available.

While the Canadian dollar continued to be traded at a premium in foreign exchange markets during the opening months of the year, the average value over the first quarter was lower than it has been in any quarter since 1956. The quarterly noon average value of the United States dollar in the Canadian exchange market was 98.99 cents in Canadian funds. The trading range over the quarter was less than $1\frac{1}{2}$ cents.

Transactions with Non-Residents in Canadian Treasury Bills

(Millions of Canadian dollars)

	<u>Sales</u>	<u>Repurchases and Maturities</u>	<u>Net Change in holdings</u>	<u>Holdings at month-end</u>
1958 - December .....	...	...	...	50
1959 - January	17	20	- 3	47
February	28	10	+18	65
March	18	33	-15	50
April	30	13	+17	67
May	28	19	+ 9	76
June	59	22	+37	113
July	39	30	+ 9	122
August	43	26	+17	139
September	15	40	-25	114
October	13	45	-32	82
November	31	41	-10	72
December	48	56	- 8	64
Year	369	355	+14	64
1960 - January	20	12	+ 8	72
February	16	29	-13	59
March	21	24	- 3	56
April	16	12	+ 4	60
May	18	20	- 2	58
June	19	31	-12	46
July	43	17	+26	72
August	36	17	+19	91
September	28	46	-18	73
October	68	36	+32	105
November	49	14	+35	140
December	46	66	-20	120
Year	380	324	+56	120
1961 - January	46	47	- 1	119
February	27	43	-16	103
March	87	40	+47	150

Other non-resident participation in the Canadian short-term money market included the acquisition during the first quarter of 1961 of about \$60 million of commercial paper, and borrowings by Canadian finance companies, including sales of acceptance paper, of about \$10 million. Both amounts are net of repayments.

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1961 are preliminary and

		1959			
		I	II	III	IV
A	Current Receipts				
1	Merchandise exports (adjusted)	1,060	1,354	1,286	1,449
3	Gold production available for export	37	41	33	37
4	Travel expenditures	32	85	213	61
5	Interest and dividends	30	43	40	70
6	Freight and shipping	93	112	105	110
7	Inheritances and immigrants' funds	18	34	33	24
11	All other current receipts	92	94	103	96
12	Total Current Receipts	1,362	1,763	1,813	1,847
B	Current Payments				
1	Merchandise imports (adjusted)	1,218	1,551	1,380	1,423
4	Travel expenditures	117	144	216	121
5	Interest and dividends	141	152	150	214
6	Freight and shipping	99	133	149	144
7	Inheritances and emigrants' funds	31	39	47	47
9	Official contributions	9	21	22	19
11	All other current payments	169	174	175	174
12	Total Current Payments	1,784	2,214	2,139	2,142
	Balance on Merchandise Trade	- 158	- 197	- 94	+ 26
	Balance on Other Transactions, excluding B 9	- 255	- 233	- 210	- 302
	Official Contributions	- 9	- 21	- 22	- 19
C	Current Account Balance	- 422	- 451	- 326	- 295
D	Capital Account				
	Direct Investment				
1	Direct investment in Canada	+ 101	+ 181	+ 85	+ 183
2	Direct investment abroad	- 25	- 13	- 24	- 18
	Canadian Securities				
3a	Trade in outstanding bonds and debentures	+ 33	+ 15	+ 32	+ 11
3b	Trade in outstanding common and preference stocks	+ 32	+ 33	+ 26	+ 19
4	New issues	+ 180	+ 117	+ 213	+ 197
5	Retirements	- 42	- 84	- 61	- 71
	Foreign Securities				
6	Trade in outstanding issues	- 5	- 12	- 7	- 8
7	New issues	- 3	- 2	- 1	- 7
8	Retirements	+ 3	+ 2	+ 3	+ 4
	Loans by Government of Canada				
9	Drawings	- 1	-	-	-
10,11	Repayments	-	+ 9	-	+ 25
13	Subscriptions in gold and U.S. dollars to international financial agencies	-	-	-	- 59
14	Change in Canadian dollar holdings of foreigners	- 12	+ 47	+ 22	- 44
16	Change in official holdings of gold and foreign exchange (increase, minus)	+ 49	- 43	- 3	+ 67
17	Other capital movements	+ 112	+ 201	+ 41	- 4
E	Net Capital Movement	+ 422	+ 451	+ 326	+ 295

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports on B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance trans-

B 11) actions, and business services.

BALANCE OF INTERNATIONAL PAYMENTS

1960
data for 1959 are subject to revision.

1960				1961	Annual Totals			Four Quarters ending March 31, 1961	
I	II	III	IV	I	1958	1959	1960		
(millions of dollars)									A
1,283	1,323	1,401	1,393	1,261	4,887	5,149	5,400	5,378	1
44	35	42	40	41	160	148	161	158	3
36	91	224	66	38	349	391	417	419	4
35	37	36	67	34	168	183	175	174	5
94	107	111	103	97	401	420	415	418	6
18	29	31	24	19	97	109	102	103	7
90	99	104	96	90	375	385	389	389	11
1,600	1,721	1,949	1,789	1,580	6,437	6,785	7,059	7,039	12
1,327	1,510	1,317	1,394	1,269	5,066	5,572	5,548	5,490	B
112	168	219	133	125	542	598	632	645	1
147	161	163	184	200	612	657	655	708	4
111	137	139	139	114	460	525	526	529	5
38	43	50	50	39	145	164	181	182	6
10	9	16	23	12	53	71	58	60	7
183	179	183	184	182	690	692	729	728	9
1,928	2,207	2,087	2,107	1,941	7,568	8,279	8,329	8,342	11
- 44	- 187	+ 84	- 1	- 8	- 179	- 423	- 148	- 112	12
- 274	- 290	- 206	- 294	- 341	- 899	- 1,000	- 1,064	- 1,131	
- 10	- 9	- 16	- 23	- 12	- 53	- 71	- 58	- 60	
- 328	- 486	- 138	- 318	- 361	- 1,131	- 1,494	- 1,270	- 1,303	C
+ 210	+ 175	+ 175	+ 130	+ 120	+ 420	+ 550	+ 690	+ 600	D
- 15	- 25	- 30	- 15	- 35	- 48	- 80	- 85	- 105	1
+ 20	+ 16	- 18	- 11	+ 31	-	+ 91	+ 7	+ 18	2
+ 13	+ 24	+ 9	+ 2	+ 13	+ 88	+ 110	+ 48	+ 48	3a
+ 204	+ 127	+ 29	+ 37	+ 80	+ 677	+ 707	+ 397	+ 273	3b
- 44	- 73	- 24	- 84	- 59	- 158	- 258	- 225	- 240	4
+ 10	- 2	+ 5	- 21	+ 3	+ 13	- 32	- 8	- 15	5
- 3	- 4	- 3	- 10	- 5	- 17	- 13	- 20	- 22	6
+ 6	+ 3	+ 8	+ 2	+ 2	+ 7	+ 12	+ 19	+ 15	7
-	-	-	-	-	- 34	- 1	-	-	8
-	+ 7	-	+ 25	+ 3	+ 64	+ 34	+ 32	+ 35	9
-	-	- 1	- 2	-	-	- 59	- 3	- 3	10, 11
- 3	- 2	+ 45	+ 75	- 8	+ 106	+ 13	+ 115	+ 110	13
+ 11	+ 82	- 40	- 14	- 105	- 109	+ 70	+ 39	- 77	14
- 81	+ 158	- 17	+ 204	+ 321	+ 122	+ 350	+ 264	+ 666	16
+ 328	+ 486	+ 138	+ 318	+ 361	+ 1,131	+ 1,494	+ 1,270	+ 1,303	17
									E

NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.



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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

SECOND QUARTER 1961

Canada's current deficit from transactions in goods and services with other countries was less both in the second quarter and the first half of 1961 than in similar periods of recent years. At \$323 million in the second quarter and \$670 million in the half year these deficits compare with \$470 million and \$791 million respectively in the same periods of 1960, and are less than in corresponding periods since 1955, with the exception of the first half of 1958.

Sharp contraction in import balance on merchandise trade

The reduction in imbalance in the second quarter was almost all due to the sharp contraction in the import balance on merchandise trade. The latter was mainly brought about by a rise of more than 40 per cent in the value of exports to overseas countries other than the United Kingdom, together with a small reduction in imports from the United States and United Kingdom. The deficit from non-merchandise transactions of \$281 million remained about the same and represented a larger proportion of the current deficit than in the same period of last year.

In the six month period the reduction in imbalance was less than in the second quarter due to an increase which occurred in the first quarter. In the half year the reduction all occurred on merchandise account and was the joint effect of an increase in exports and a decrease in imports of generally similar size. On non-merchandise account the deficit of \$627 million was some 12 per cent greater than in 1960 and represented most of the current deficit of \$670 million. A large part of the increase in this part of the deficit originated from heavy dividend transfers in the first quarter rather than in the final quarter of 1960, and larger interest payments on bonds.

In the second quarter of 1961 the direction of Canadian exports again reflected strong overseas demands. The principal change from the previous year was the continued rise in exports overseas to countries other than the United Kingdom which were some 40 per cent higher than last year. The value of shipments to the United States in contrast was at about the same level as in 1960 but this marks an improvement over the same comparison for the first quarter when the export total to the United States was appreciably less than in 1960. And exports to the United Kingdom were moderately lower in the quarter.

A sharp rise in wheat shipments was the most important factor behind the second quarter increase in exports. The gain in wheat shipments overseas accounted for the largest part of the over-all increase in exports to overseas destinations. The relative stability in the total of exports to the United States was the result of a variety of offsetting increases and decreases. Gains in some major exports to that country offset declines in such commodities as uranium and iron ore.

In the half year the trend in merchandise exports has been a gain of over 3 per cent in the total to all countries. About half of the continued rise in the movement to overseas countries was offset by the drop in shipments to the United States which was concentrated in the first quarter. In the half year period, too, a special factor in the increase was the higher export of wheat.

Imports of merchandise into Canada continued to be characterized by the relative stability in totals. Changes on the whole have been small and the adjusted figures used in the balance of payments have been influenced by special factors connected with some commodities like aircraft, with the continued deliveries of commercial airliners. The relative stability appears in totals of commodities imported from both the United States and overseas. The same broad pattern applies to the half year as well, although there were more declines in that period in imports from the United States.

Prepared in the Balance of Payments Section, International Trade Division.

7503-509-61

The composition of imports has not shown sharp changes, although there has been a tendency for some commodities to either cease to rise or actually to decline, of which examples are provided by some kinds of machinery and equipment and by automobiles and rolling mill products. Examples of changes in the opposite direction have been the increased deliveries of commercial airliners already noted and rises in some industrial materials like crude petroleum.

Deficit from services and other non-merchandise items

The deficit on "invisible" transactions stood virtually unchanged at \$283 million and \$281 million, respectively, in the second quarter of 1960 and 1961, but represented three-fifths and seven-eighths of the current account deficits of the two periods, on account of the influence of the change in the merchandise trade balance. Moderate increases in net payments of government expenditures abroad, miscellaneous income, migrants' funds and personal remittances were more than counterbalanced by reductions in the deficits on travel and income accounts and by a higher value of gold production available for export.

A larger rise in receipts than in payments of interest and dividends reduced the deficit on this account from \$124 million to \$117 million in the quarter. The expansion from \$40 million to \$56 million in the receipts was due primarily to a large transfer to Canada of earnings, which covered an extended period. Remittances abroad of interest were higher, as also were those of dividends, the income account payment totals being \$164 million and \$173 million respectively in the second quarter of 1960 and 1961. Following exceptionally large total remittances of dividends by subsidiaries to parents abroad in the March quarter, similar remittances in the second quarter resumed more normal proportions, and the moderate rise in aggregate dividends remitted was primarily due to items of a non-recurring nature. Net payments on income account represented 44 per cent and 42 per cent of the total deficit from non-merchandise transactions in the second quarter of 1960 and 1961. A rise in travel receipts from \$91 million to \$102 million and in payments for travel abroad from \$168 million to \$173 million had the effect of reducing the deficit on this account from \$77 million to \$71 million. Gold production available for export advanced from \$35 million to \$42 million in the June quarter of 1961. Net payments for freight and shipping services remained unchanged at \$22 million, as receipts and payments stood respectively at \$116 million and \$138 million, following slight gains from the second quarter of 1960.

A larger deficit on government account in the June quarter of 1961 was attributable to the payment of Canada's assessment towards financing the United Nations' operations in the Congo and in the Middle East and larger military expenditures in the United Kingdom, together with lower estimated defence expenditures in Canada by the United States. Conversely, official contributions, including aid under the Colombo Plan, are estimated \$3 million below the \$10 million total for the second quarter of 1960. A \$6 million decline in receipts of miscellaneous income was mainly due to a non-recurring compensation for contract cancellation in the 1960 quarter and also to somewhat lower transfers of various types of miscellaneous income. A reduction in the number of immigrants arriving in Canada together with more active emigration to the United States accounted for \$4 million rise to \$18 million in the deficit on migrants' funds and inheritances.

Transactions by areas

The reduction of \$147 million from a current deficit of \$470 million with all countries to that of \$323 million in the June quarter of 1961 was concentrated in the balance with Other Countries, where a turn-around of \$133 million occurred from a deficit of \$36 million to a surplus of \$97 million. The current account deficit with the United States was reduced and the surplus with the United Kingdom was increased by \$7 million in each case. The recovery in the current account balance with Other Countries was based on a gain of \$134 million in exports, supported by a reduction of \$8 million in the deficit on "invisible" transactions, but offset by about the same amount by larger imports. Within the Other Countries group, as the current account balance with the Rest of the Sterling Area was virtually unchanged between the second quarter of 1960 and 1961, and as the improvement with the OEEC group was limited to an estimated \$20 million, over four-fifths of the change was found in the balance with "other countries".

The decline in the deficit on current account with the United States from \$447 million to \$440 million followed a \$9 million reduction in the deficit on merchandise trade to \$231 million, together with a \$2 million increase to \$209 million in the deficit on non-merchandise transactions. Changes in the component totals were minor, considering the magnitude of the individual aggregates. The deficit on merchandise trade accounted for slightly more than one-half of the current account balance in the two periods under comparison.

Summary of Current Transactions with the
United States, United Kingdom and Other Countries, 1960 and 1961
and Change between the Periods

(millions of dollars)

	All Countries			United States			United Kingdom			Other Countries		
	1960	1961	Change	1960	1961	Change	1960	1961	Change	1960	1961	Change
<u>Second Quarter</u>												
Merchandise exports (adjusted)	1,323	1,442	+ 119	765	764	- 1	231	217	- 14	327	461	+ 134
Merchandise imports (adjusted)	1,510	1,484	- 26	1,005	995	- 10	186	161	- 25	319	328	+ 9
Balance on merchandise trade	- 187	- 42	+ 145	- 240	- 231	+ 9	+ 45	+ 56	+ 11	+ 8	+ 133	+ 125
Other current receipts	417	442	+ 25	289	298	+ 9	54	53	- 1	74	91	+ 17
Other current payments	700	723	+ 23	496	507	+ 11	86	89	+ 3	118	127	+ 9
Balance on non-merchandise transactions	- 283	- 281	+ 2	- 207	- 209	- 2	- 32	- 36	- 4	- 44	- 36	+ 8
Current account balance	- 470	- 323	+ 147	- 447	- 440	+ 7	+ 13	+ 20	+ 7	- 36	+ 97	+ 133
												3
												1
<u>January to June</u>												
Merchandise exports (adjusted)	2,606	2,704	+ 98	1,534	1,435	- 99	440	440	-	632	829	+ 197
Merchandise imports (adjusted)	2,837	2,747	- 90	1,947	1,880	- 67	327	294	- 33	563	573	+ 10
Balance on merchandise trade	- 231	- 43	+ 188	- 413	- 445	- 32	+ 113	+ 146	+ 33	+ 69	+ 256	+ 187
Other current receipts	753	773	+ 20	531	538	+ 7	98	92	- 6	124	143	+ 19
Other current payments	1,313	1,400	+ 87	906	974	+ 68	169	179	+ 10	238	247	+ 9
Balance on non-merchandise transactions	- 560	- 627	- 67	- 375	- 436	- 61	- 71	- 87	- 16	- 114	- 104	+ 10
Current account balance	- 791	- 670	+ 121	- 788	- 881	- 93	+ 42	+ 59	+ 17	- 45	+ 152	+ 197

The \$7 million addition to the surplus on current account with the United Kingdom, which stood at \$20 million in the June quarter of 1961, resulted from a \$11 million gain in the trade surplus, offset by a \$4 million increase in the "invisible" deficit. Merchandise exports declined from \$231 million to \$217 million, while the fall in imports was almost twice as large, from \$186 million to \$161 million. In transactions with the Rest of the Sterling Area, an \$11 million decline in merchandise exports was covered by an improvement of \$13 million in the balance on non-merchandise transactions, including extraordinary transfers of income to Canada. An expansion of over 10 per cent in exports to OEEC countries, a decline of about one-half the magnitude in imports, together with a small increase in the net payments on services erased the current account deficit, which was estimated at \$20 million in the second quarter of 1960.

The substantial improvement in the current account balance with "other countries" was attributable to the approximate doubling of exports, which were valued at about \$110 million in the June quarter of 1960, offset by a much smaller increase in imports. At the same time non-merchandise transactions with these countries remained close to balance. Larger wheat shipments to Communist China, Czechoslovakia, Russia, Poland, Japan and Finland represented roughly two-thirds of the export gain between the two quarters.

During the first half of 1961, all the component areas, with the exception of the United States, contributed to the \$121 million reduction in Canada's current account deficit. The deficit with the United States gained \$93 million from \$788 million to \$881 million, while the balances improved moderately with the United Kingdom, the Rest of the Sterling Area and the OEEC group, and more substantially with "other countries". The balance on merchandise trade, which remained unchanged or became more favourable with every area, except the United States, yielded together a net reduction of \$188 million in the "visible" deficit from \$231 million in the six months of 1960 to \$43 million in the same period of the current year. On the other hand, the deficit on non-merchandise transactions continued to grow, with most of the \$67 million rise originating in transactions with the United States, and with the only partial offset occurring with the Rest of the Sterling Area.

Capital movements

During the second quarter portfolio capital re-asserted itself as the largest single source of capital inflow to Canada. More than one-quarter of it was for investment in corporate equities, and more than one-half for investment in corporate funded debt. A substantial part of this movement had been arranged earlier. Inflows for direct investment in foreign-controlled enterprises rose slightly. As might be expected in a period of change there were also shifts in movements of capital in short-term forms.

Capital movements in the long-term forms shown separately in statements of the Canadian balance of payments led to a net capital inflow of \$252 million in the second quarter, equivalent to 78 per cent of the current account deficit in the period. The inflow in these forms of \$148 million in the first quarter was equivalent to 43 per cent, and in the preceding quarter it had been equivalent to only 19 per cent.

Geographically in the first half of 1961 about 90 per cent of the net capital inflow in these long-term forms came from the United States, and about 15 per cent from the United Kingdom, while there were net outflows on balance to other overseas countries.

Special capital transactions of the Commonwealth of Australia during the second quarter were reflected in several places in the Canadian capital account. Late in March the Commonwealth had arranged the sale to Canadian underwriters of an issue of \$20 million 5½% Twenty Year Bonds payable in Canadian dollars for delivery in April. The proceeds were to be applied towards capital works expenditures being financed under the loan programmes approved by the Australian Loan Council for the Governments of the Commonwealth and the States. There was some non-resident participation, and net Canadian purchases are included under new issues of foreign securities in the second quarter.

Late in April the International Monetary Fund announced that it had agreed to a drawing by the Government of Australia in currencies held by the Fund equivalent to \$175 million in United States funds, and had also entered into a stand-by agreement to cover additional drawings (which Australia is since reported to have terminated). The purpose was to support the Australian Government in its efforts to improve its foreign payments position. The funds drawn included about \$10 million in Canadian dollars. (This was the second occasion upon which a member country has purchased Canadian dollars from the Fund; in 1956 Egypt purchased nearly \$15 million.) The Fund's

holdings of Canadian dollars were largely replenished by a co-incidental payment by Canada of \$9 million representing adjustment of Canada's subscription arising from exchange rate changes.

The net inflow of capital for direct investment in foreign-controlled enterprises in Canada is tentatively estimated at \$140 million in the second quarter, compared with \$125 million in the preceding quarter and with \$155 million in the corresponding quarter of last year. About three-fifths of the net movement was directed to the mining, petroleum and natural gas industries. The financial group accounted for about one-quarter, with inflows for the acquisition by United Kingdom and United States interests of existing insurance companies particularly prominent in the total; these inflows were offset in part by outflows to previous owners resident outside Canada.

During the second quarter the inflow of capital for the acquisition of existing enterprises was greater than in the first, but the outflow for the repatriation of ownership of Canadian concerns was also larger, and the increase in the net inflow for direct investment did not arise from these special types of transactions. Repatriation of ownership included mining and merchandising concerns.

Geographically, about half the net inflow of capital for direct investment in foreign-controlled Canadian enterprises in the second quarter came from the United States, while more than two-fifths is estimated to have come from the United Kingdom. The proportion from the United States has tended in recent periods to be between 70 and 80 per cent, but the acquisition of insurance companies referred to earlier led in the second quarter to inflows from the United Kingdom and outflows to the United States.

The net outflow of Canadian capital for direct investment abroad during the quarter is tentatively estimated at \$35 million, the same figure as for the first quarter. The total of \$70 million for the first half of 1961 compares with \$85 million for the whole of 1960. In contrast to the first quarter when perhaps half the outflow was to the United States, over two-thirds of the outflow in the second quarter was to overseas countries.

Transactions in long-term Canadian securities led to a capital inflow of \$152 million in the second quarter, compared with \$55 million in the first quarter of the year and with \$107 million in the second quarter of 1960. Among the outstanding features was the net sale of \$66 million of outstanding Canadian securities, which was as large as any since the third quarter of 1956; nearly half the amount represented net sales of stocks. Residents of the United States acquired \$80 million of the outstanding issues sold by Canadians, while residents of the United Kingdom resold to Canadians some \$15 million. Residents of other overseas countries added \$1 million to their holdings through trade in outstanding issues.

Sales to non-residents of \$182 million of new issues were more than twice the total for the first quarter of 1961 and four times that for the final quarter of 1960, but there were two earlier periods in which the total had been as high as \$295 million. The large total of proceeds of sales of new issues to non-residents in the second quarter was influenced by the delivery of some issues for whose sale contractual arrangements had been completed earlier. A comparison of the data in respect of sales of new issues of Canadian bonds to residents of the United States is given alongside, and a more complete statement appears on page eleven. The total sales of new issues to all non-residents in the second quarter included \$136 million of corporate bonds and stocks, the highest level for this category since the second quarter of 1957. Some \$28 million of municipal issues together with \$15 million of Government of Canada issues and \$3 million of provincial issues made up the balance of the total.

New Issues of Canadian Bonds Sold to
United States Residents

<u>Quarter</u>		<u>Contracts</u>	<u>Deliveries</u>
		(millions of dollars)	
1960	I Q	182	185
	II Q	100	125
	III Q	53	33
	IV Q	103	26
1961	I Q	160	119
	II Q	63	149

Retirements of foreign-held Canadian securities totalled \$96 million and were larger than for any quarter in the last decade. Corporate issues accounted for \$41 million, Government of Canada direct and guaranteed issues for \$33 million, and provincial and municipal issues for \$22 million. All these figures are apart from transactions in Government of Canada treasury bills and Canadian commercial and finance paper which are the subject of later comment.

Transactions in long-term foreign securities led to a net capital outflow of \$13 million. Trade in outstanding issues was in near balance despite a turn-over of nearly a quarter of a billion dollars in the quarter. Canadians paid out \$15 million for the purchase of new issues of foreign securities and received \$2 million from the retirement of previously held issues.

Regular instalments of principal fell due during the second quarter on intergovernmental loans to Belgium and The Netherlands, giving rise to a capital inflow of \$8 million.

CHANGE

Quarter	Canadian Dollar Holdings	Canada Treasury Bills	Deposits etc.
	(millions of dollars)		
1960 I Q	- 2	- 8	+ 6
II Q	- 2	- 10	+ 8
III Q	+45	+ 27	+ 18
IV Q	+79	+ 47	+ 32
1961 I Q	- 8	+ 30	- 38
II Q	-70	- 72	+ 2

Canadian dollar holdings of non-residents fell by \$70 million during the quarter. Most of the decline was in holdings of Government of Canada treasury bills. These fell by \$72 million in the quarter, and by \$74 million in the month of June alone reflecting the maturity of exceptionally heavy sales in March. During most of that month treasury bill yield differentials between Canada and the United States, after exchange protection, ranged between three-quarters and one per cent. These differentials did not continue and on the whole over June tended to be less than one-quarter of one per cent.

Geographically Canadian dollar holdings in the form of treasury bills and deposits by residents of the United States fell by about \$100 million, but holdings of Continental Europe and the United Kingdom rose respectively by \$19 million and \$8 million.

Canada's official holdings of gold and foreign exchange were increased again during the second quarter, but the rise was smaller than in the first quarter. These increases in external assets represented capital exports of \$51 million in the second quarter and \$105 million in the first. The movement in the second quarter included an increase of about \$1 million in official holdings of sterling, but apart from this the entire movement was in holdings of gold and United States funds. Canada's official holdings of these, expressed in terms of United States dollars, rose from \$1,935 million at the end of the first quarter to \$1,985 million at the end of the second. At this level they were \$12 million above the previous month-end record of \$1,973 million for July, 1957. Some \$36 million of the increase in the more recent quarter occurred in June.

In his Budget Address delivered to the House of Commons on June 20th the Minister of Finance announced that the Government had reached certain policy conclusions relating to the flows of capital and terms of lending within Canada, the import of capital from abroad, the level of the Canadian dollar, and the deficit in Canada's current international transactions. These conclusions are set out on page ten. In his remarks the Minister indicated the Government would like to see the spreads narrowed between interest rates in Canada and those in the United States and some of the European capital-exporting countries. Dealing with exchange operations he announced that:

" the exchange fund will be prepared, as and when necessary, to add substantial amounts to its holdings of United States dollars through purchases in the exchange market. This would have the effect of increasing the foreign exchange reserves available to Canada to be used in case of need. As many competent observers have pointed out, these reserves have not grown over the past decade in line with Canada's international transactions. Once an exchange rate more closely in line with Canada's economic position is achieved, the government will use the resources of the exchange fund to ensure that the rate is kept within a range appropriate to Canada's changing economic situation. The value of our currency must, of course, ultimately depend upon our pursuit of appropriate economic policies. "

The Canadian dollar weakened on the world's exchange markets during the quarter. The United States dollar had closed at 98.91 cents in Canadian funds at the end of March, while at the end of June the closing quotation was 103.50 cents. The low for the quarter was 98.59 cents and the high was 103.53 cents. This was its highest level since 1951; in the intervening period the United States dollar had traded in Canada down to 94.22 cents. The largest part of the change occurred between June 12 and June 23 when the noon average rose by more than four cents. The noon averages for the months of the second quarter were successively 98.89 cents, 98.75 cents and 100.55 cents. The average for the quarter as a whole of 99.42 cents compared with 98.99 cents in the first quarter and 96.97 cents for 1960 as a whole.

All other capital movements were inward during the second quarter as they have been with one exception each second quarter since 1950 when official quarterly estimates comparable to the present series were commenced. Publication for the first time in a statement on this page of the principal components identifiable quarterly is a further step in the effort to provide useful detail for those interested in this group of movements whose statistical measurement has presented major difficulties. Although a great deal of work has been done in the development of these data, they are necessarily less precise than for other accounts in the main balance of payments statement.

Among the features which stand out in the statement are the return to Canada of a considerable volume of Canadian private and banking holdings of foreign exchange, in contrast to the outflows which augmented these holdings during most of last year. The inflow of \$183 million in the first half of 1961 was greater than the net outflow for the whole of 1960. Concealed within the movements in 1961 was a significant outflow to the United Kingdom in the first quarter, which was more than reversed in the second.

Also of interest was the substantial inflow arising from borrowings from non-residents by finance companies and the growth in holdings by non-residents of Canadian commercial paper. In the first half of 1961 these together accounted for an inflow of \$144 million.

The "all other" category includes a mixture of many types of movement both inward and outward. Among the more prominent groups are changes in inter-company accounts, short-term loans, accounts payable and receivable, and also the balancing item reflecting the difference between the estimated current account balance and the capital movements for which quarterly data have become available.

Broadly speaking the interest arbitrage movement of funds from the United States to Canada became less attractive as the second quarter progressed, while differentials, after exchange protection, were not sufficiently large in the quarter to attract funds from the United Kingdom to Canada with the exception of a brief period at the beginning and again at the end.

Composition of "Other Capital Movements"

	1960				1961	
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter
Transactions with all countries						
International Financial Agencies ⁽¹⁾						
Canadian dollar subscriptions	-	- 1	- 2	- 6	-	- 9
Short-term Canadian dollar holdings	-	2	2	-	1	-
Other long-term capital transactions	3	43	- 3	15	-10	- 4
Bank balances and other short-term funds abroad (excluding official reserves)	32	-79	-87	-34	110	73
Borrowings from non-residents by finance companies, and non-resident holdings of commercial paper (1961 only)	- 6	11	6	54	71	73
All other transactions including changes in loans and accounts receivable and payable ⁽²⁾	-112	175	34	151	140	59
TOTAL (Item D 17)	- 83	151	-50	180	312	192

(1) International Bank for Reconstruction and Development, International Monetary Fund, and International Development Association.

(2) Includes also balancing item representing difference between direct measurements of current and capital accounts.

NOTES: The figures in this statement are based on incomplete data, and make use in some cases of statistics compiled in other countries. The items are therefore subject to greater possible error than others in the balance of payments statement.

A minus sign indicates an outflow of capital from Canada.

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1961 are preliminary and

		1959			1960
		II	III	IV	I
A	Current Receipts				
1	Merchandise exports (adjusted)	1,355	1,286	1,449	1,283
3	Gold production available for export	41	33	37	44
4	Travel expenditures	85	213	61	36
5	Interest and dividends	43	40	69	36
6	Freight and shipping	112	105	110	102
7	Inheritances and immigrants' funds	34	33	24	18
11	All other current receipts	95	106	97	100
12	Total Current Receipts	1,765	1,816	1,847	1,619
B	Current Payments				
1	Merchandise imports (adjusted)	1,551	1,380	1,423	1,327
4	Travel expenditures	144	216	121	119
5	Interest and dividends	153	151	222	149
6	Freight and shipping	133	149	144	114
7	Inheritances and emigrants' funds	39	47	48	38
9	Official contributions	22	22	19	10
11	All other current payments	174	173	173	183
12	Total Current Payments	2,216	2,138	2,150	1,940
	Balance on Merchandise Trade	- 196	- 94	+ 26	- 44
	Balance on Other Transactions, excluding B 9	- 233	- 206	- 310	- 267
	Official Contributions	- 22	- 22	- 19	- 10
C	Current Account Balance	- 451	- 322	- 303	- 321
D	Capital Account				
	Direct Investment				
1	Direct investment in Canada	+ 181	+ 85	+ 183	+ 208
2	Direct investment abroad	- 13	- 24	- 18	- 15
	Canadian Securities				
3a	Trade in outstanding bonds and debentures	+ 15	+ 32	+ 11	+ 19
3b	Trade in outstanding common and preference stocks	+ 33	+ 26	+ 19	+ 13
4	New issues	+ 117	+ 213	+ 197	+ 209
5	Retirements	- 84	- 61	- 71	- 50
	Foreign Securities				
6	Trade in outstanding issues	- 12	- 7	- 8	+ 7
7	New issues	- 2	- 1	- 7	- 2
8	Retirements	+ 2	+ 3	+ 4	+ 6
	Loans by Government of Canada				
9	Drawings	-	-	-	-
10,11	Repayments	+ 9	-	+ 25	-
13	Subscriptions in gold and U.S. dollars to IBRD, IFC and IMF	-	-	- 59	-
14	Change in Canadian dollar holdings of foreigners	+ 47	+ 22	- 44	- 2
16	Change in official holdings of gold and foreign exchange (increase, minus)	- 43	- 3	+ 67	+ 11
17	Other capital movements	+ 201	+ 37	+ 4	- 83
E	Net Capital Movement	+ 451	+ 322	+ 303	+ 321

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports on B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance trans-
B 11) actions, and business services.

BALANCE OF INTERNATIONAL PAYMENTS

data for 1960 are subject to revision.

1960			1961		Annual Totals			Four Quarters ending June 30, 1961	
II	III	IV	I	II	1958	1959	1960		
(millions of dollars)									
1,323	1,400	1,394	1,262	1,442	4,887	5,150	5,400	5,498	A
35	42	41	41	42	160	148	162	166	1
91	221	72	38	102	349	391	420	433	3
40	36	66	35	56	168	182	178	193	4
115	118	107	99	116	401	420	442	440	5
29	31	24	19	28	97	109	102	102	6
107	111	102	99	98	375	392	420	410	7
									11
740	1,959	1,806	1,593	1,884	6,437	6,792	7,124	7,242	12
510	1,318	1,390	1,263	1,484	5,066	5,572	5,545	5,455	B
168	213	127	126	173	542	598	627	639	1
164	161	195	204	173	612	671	669	733	4
137	141	141	114	138	460	525	533	534	5
43	50	50	40	46	145	165	181	186	6
10	16	24	12	7	53	72	60	59	7
178	182	183	181	186	690	693	726	732	9
									11
210	2,081	2,110	1,940	2,207	7,568	8,296	8,341	8,338	12
187	+ 82	+ 4	- 1	- 42	- 179	- 422	- 145	+ 43	
273	- 188	- 284	- 334	- 274	- 899	- 1,010	- 1,012	- 1,080	
10	- 16	- 24	- 12	- 7	- 53	- 72	- 60	- 59	
470	- 122	- 304	- 347	- 323	- 1,131	- 1,504	- 1,217	- 1,096	C
155	+ 179	+ 148	+ 125	+ 140	+ 420	+ 550	+ 690	+ 592	D
25	- 29	- 16	- 35	- 35	- 48	- 80	- 85	- 115	1
15	- 19	- 12	+ 31	+ 34	-	+ 91	+ 3	+ 34	2
24	+ 10	+ 2	+ 13	+ 32	+ 88	+ 110	+ 49	+ 57	3a
146	+ 52	+ 40	+ 80	+ 182	+ 677	+ 707	+ 447	+ 354	3b
78	- 32	- 93	- 69	- 96	- 158	- 258	- 253	- 290	4
5	+ 2	- 24	+ 3	-	+ 13	- 32	- 20	- 19	5
3	- 2	- 11	- 5	- 15	- 17	- 13	- 18	- 33	6
3	+ 7	+ 2	+ 2	+ 2	+ 7	+ 12	+ 18	+ 13	7
									8
7	-	+ 25	+ 3	+ 8	- 34	- 1	-	-	9
					+ 64	+ 34	+ 32	+ 36	10,11
2	+ 45	+ 79	- 8	- 70	+ 106	+ 13	+ 120	+ 46	13
82	- 40	- 14	- 105	- 51	- 109	+ 70	+ 39	- 210	14
151	- 50	+ 180	+ 312	+ 192	+ 122	+ 360	+ 198	+ 634	16
									17
470	+ 122	+ 304	+ 347	+ 323	+ 1,131	+ 1,504	+ 1,217	+ 1,096	E

NOTES:

0 A minus sign indicates an outflow of capital from Canada.

01,2 Exclusive of undistributed profits.

017 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.

Extract from the Budget Address delivered by the Honourable Donald M. Fleming, M.P.
Minister of Finance, to the House of Commons, June 20, 1961

" Accordingly, the government has reached certain policy conclusions relating to the flows of capital and terms of lending within Canada, the import of capital from abroad, the level of the Canadian dollar, and the deficit in our current international transactions. These conclusions may be set out as follows:

- (a) The current deficit in our balance of payments is in large measure inappropriate; with so much unused capacity in Canada, we should be exporting substantially more goods and services and importing much less.
- (b) An expansion in exports and a reduction in imports should not be brought about by export subsidies, or by higher tariff rates, or quotas, or other forms of government intervention or protection, but rather by encouraging our exchange rate to fall into a more appropriate relationship with our economic situation.
- (c) The appropriate method for relieving the exchange rate of undue and unwanted upward pressures is to take every practicable step to ensure that Canadians who might otherwise be raising funds abroad are, in future, satisfied from Canadian financial sources.
- (d) Since it will take time to divert demands for funds from foreign sources to Canadian sources, and since it is urgent to obtain relief from the resulting excess of imports of goods and services, the government has decided to use the exchange fund to neutralize, at least in some degree, the effects of the continuing capital inflows. "

Contract and Delivery of New Issues of
Canadian Bonds and Debentures sold to Residents
of the United States

Year and Quarter		Sales contracts entered into	Add Deliveries of prior sales	Deduct Sales for later delivery	Proceeds of New Issues
			(millions of dollars)		
1956		...	...	- 122	557
1957		656	122	- 80	698
1958		574	79	- 70	583
1959		575	64	- 35	604
1960		438	41	- 110	369
1957	I	277	82	- 126	233
	II	265	63	- 61	267
	III	68	77	- 20	125
	IV	46	27	-	73
1958	I	161	9	- 9	161
	II	260	32	- 40	252
	III	20	73	- 5	88
	IV	133	5	- 56	82
1959	I	98	58	- 4	152
	II	164	6	- 72	98
	III	177	73	- 57	193
	IV	136	48	- 23	161
1960	I	182	27	- 24	185
	II	100	28	- 3	125
	III	53	11	- 31	33
	IV	103	3	- 80	26
1961	I	160	51	- 92	119
	II	63	86	-	149

Note: As details of all contracts are not available, deferred deliveries may be understated.



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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

THIRD QUARTER 1961

Canada's current deficit from transactions in goods and services with other countries at \$80 million in the third quarter of 1961 was less than the deficit of \$122 million in the same period last year, or in any similar period since 1954. This was the result of merchandise exports rising more than imports with an export balance of \$120 million from merchandise trade, as the deficit from non-merchandise transactions at \$200 million in the quarter remained close to the deficit of \$204 million from similar transactions last year. Although this non-merchandise deficit was less than in either 1958 or 1959, it remained much more than in any third quarter before 1958. Various changes among sources of this deficit have occurred. A considerable improvement in 1961 in the balance on travel account offset increases in net payments on account of interest and dividends and a variety of other groups of transactions.

In the nine months of 1961 the current deficit was reduced to \$746 million from \$913 million in the same period of 1960. This change was entirely brought about by the swing from an import balance on merchandise account to an export balance as exports rose more than imports. The deficit from non-merchandise transactions of \$829 million was some 9 per cent higher mainly because of the sharp rise which occurred in the first quarter with an unusual concentration of dividend transfers for that period.

Capital inflows for both direct and portfolio investment were moderated in the third quarter under a variety of influences. The change in official holdings of gold and foreign exchange was relatively small apart from some special transactions with the United Kingdom in connection with that country's drawing from the International Monetary Fund. Private and banking holdings of foreign exchange by Canadians rose sharply. Overall, the inflows in long-term forms were substantially in excess of the current account deficit, as is characteristic of the quarter. For the year to date, they have been equivalent to about two-thirds of the current deficit.

Export balance on merchandise account

Continued strong demands from overseas together with a sizable increase in shipments to the United States led to a record level of exports in the third quarter. The substantial gain of 10 per cent over the same period of the previous year was spread among more commodities than in the case of the second quarter where the large gain was more concentrated in shipments of wheat. Part of the rise, however, reflects the effects on values of the lower foreign exchange value of the Canadian dollar. In the third quarter deliveries of aircraft to the United States were much larger and some gains appear in other commodities to that country, including petroleum and some other major export staples. An appreciable gain in exports to the United States contrasts with the earlier period of the year. At the same time a further substantial gain over last year occurred in exports to foreign countries overseas which continued around the high level of the second quarter and which again were featured by the heavy deliveries of wheat to Europe and Asia.

In the nine months' period of 1961 the gain in the value of exports was 6 per cent overall. But the increase was all concentrated in shipments to overseas countries as exports to the United States were slightly less in value because of declines early in the year. The value of shipments to the United Kingdom and the rest of the Commonwealth continued around the high levels of the previous year. The large gains were in exports to foreign countries mainly in Europe and Asia but also in Latin America. The rise in value exported to other foreign countries as a group amounted to about 26 per cent and of this the largest part was contributed by wheat, although some other commodities, mainly industrial materials, also were significantly higher than the high levels of the previous year.

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Imports in the third quarter were 8 per cent higher than in the same period of last year. Being at a new peak for that quarter this marks a rising trend during 1961, although the change in the nine months' period was relatively slight. Some of the rise in the third quarter reflects the change in the foreign exchange value of the Canadian dollar. The adjusted figures used in the balance of payments have been influenced by special factors connected with some commodities like aircraft, with the continued delivery of commercial airliners. No pronounced changes in the pattern of imports so far have been evident in available details for either the third quarter or the nine-months' period. Increases in some commodities have been largely counterbalanced by reductions in others. No major changes occurred in sources of supply.

Deficit from services and non-merchandise items

While the third quarter surplus on merchandise trade at \$120 million was higher than that for the same quarter in any year in the post-war period, except 1946, the estimated deficit on "invisible" transactions at \$200 million in the third quarter of 1961 was a shade lower than in the same quarter of the preceding year and over 10 per cent smaller than in the corresponding periods of 1958 and 1959.

As compared with the September quarter of 1960, net payments were larger or unchanged for each of the items among non-merchandise transactions, except for the travel account, whose net receipts rose from \$8 million to \$30 million between the third quarters of 1960 and 1961.

The travel account has traditionally recorded surpluses in the third quarter of the post-war years, and the net payments in the third quarters of 1958 and 1959 were nominal in magnitude. The \$30 million surplus was, however, a fraction of those for the September quarter of the post-war years up to 1952, and approximated the average level for the third quarters of 1954 and 1955. A substantially augmented number of visitors from the United States during the summer months was the chief factor contributing to the surplus on travel account, as expenditures abroad by Canadian tourists were also slightly higher. While Canadian expenditures on overseas travel rose substantially there was a small decline in the total spent in the United States.

Gold production available for export, estimated at \$42 million and \$41 million, respectively, in the September quarters of 1960 and 1961 contributed to adding \$1 million to the deficit on non-merchandise transactions. A small rise likewise took place in the deficit on inheritances and migrants' funds as receipts remained unchanged while payments increased \$2 million.

The deficit on income account rose from \$125 million to \$131 million, as the increase of \$9 million in payments of interest and dividends was three times as large as that for receipts. This slightly larger total of receipts was accounted for by an augmented inflow of dividends from subsidiaries abroad of Canadian companies. The gain in income payments was distributed about evenly between interest and dividends, the advance in the former being attributable to the effect on foreign-pay bonds of the change in the exchange rate of the Canadian dollar from a premium to a discount between the third quarters of 1960 and 1961, to net sales of new provincial, municipal and corporation bonds in the third quarter of 1960 and in the first quarter of 1961, and to large net sales of outstanding bonds in the latter period. Higher dividend remittances by subsidiaries in Canada together with large non-recurring dividends also contributed to the increase, as net profits of unincorporated branches and returns on portfolio investments remained steady.

Concomitant with the expansion in merchandise trade, both receipts and payments for freight and shipping services increased about 7 per cent, thereby maintaining the deficit on this account just about unchanged at \$24 million.

A small increase in the deficit on government account resulted from declines in estimated receipts of \$10 million, in official contributions of \$4 million and in other payments of nearly \$4 million. At \$10 million, official contributions to the Rest of the Sterling Area were \$1 million higher in the current quarter under review, but comprised two gift vessels, valued at \$5½ million, presented to the West Indies Federation. Some contributions to the OEEC and Other Countries in the previous year had been non-recurring. Lower government expenditures in the United States represented smaller defence purchases of services; and a large non-recurring purchase of real estate in the United Kingdom fell in the third quarter of 1960. Miscellaneous income receipts were estimated to be lower in the third quarter of 1961; and fairly sizable compensation fees for contract cancellation did not recur in 1961. Deficits arising from business services and personal remittances remained materially unchanged over the period.

At \$829 million, net payments on non-merchandise transactions for the first 9 months of 1961 exceeded the current account deficit of \$746 million by an amount of \$83 million, representing the trade surplus. In most years since about the mid-fifties, the deficit on "invisibles" accounted for about four-fifths of the current account deficit for the first three quarters of the year, with the exception of 1956, 1957 and 1959, when net payments on services represented approximately 40 per cent, 50 per cent and 60 per cent, respectively. The $8\frac{1}{2}$ per cent rise in the deficit on "invisibles" from \$764 million to \$829 million in the 9 months of 1960 and 1961 was attributable to large additions to net payments of interest and dividends and from "other current transactions", offset in part by a sizable reduction in the deficit on travel account. The net result of gains in income receipts and payments of \$18 million and \$73 million, respectively, was an increase of \$55 million, or 15 per cent, in the deficit on income account from \$362 million to \$417 million. The substantial expansion in payments was mainly due to the bunching of dividend remittances by some subsidiaries in Canada in the first quarter of the year rather than in the customary fourth. The negative balance of \$417 million on income account, which comprised about one-half of the deficit on non-merchandise transactions, compared with 47 per cent in the three quarters of 1960, 51 per cent in 1957, and substantially higher proportions in the same period in the early fifties.

Gains in receipts and payments on travel account of \$43 million and \$21 million, respectively, contributed to a decline of \$22 million in net payments for tourist expenditures from \$152 million to \$130 million, which represented about $15\frac{1}{2}$ per cent of the deficit on "invisibles". This share compared with those of 20 per cent for the first 9 months of the three preceding years and higher proportions in 1956 and 1955. The increase of \$24 million in the deficit arising from "all other current transactions" from \$261 million to \$285 million, accounting for over one-third of total net payments on services, was ascribable to estimated declines in expenditures in Canada by the United States on account of defence and to lowered receipts of miscellaneous income, as payments remained unchanged at \$579 million in the two periods.

Transactions by areas

As seen from the summary statement on the following page, the improvement of \$42 million in the current account balance, from a deficit of \$122 million in the third quarter of 1960 to that of \$80 million in the same period of 1961, was concentrated in transactions with Other Countries, whose balance was transformed from a deficit of \$4 million to a surplus of \$40 million. The changes in the balance of payments, pertaining to both merchandise trade and non-merchandise transactions, with Canada's principal trading partners, the United States and United Kingdom, were quite moderate. The deficit with the United States was narrowed slightly from \$166 million to \$161 million, and the surplus with the United Kingdom was reduced from \$48 million to \$41 million. As the change in the balance with the Rest of the Sterling Area was slight and that with the OEEC switched from a modest surplus to a more sizable deficit, the improvement in the balance with Other Countries stemmed primarily from a substantial rise of some 70 per cent in merchandise exports to the remaining group of countries from \$135 million in the third quarter of 1960. A considerable share of the gain embodied expanded grain shipments to Communist China and to countries in Eastern Europe.

A 9 months' comparison indicates a widening in the current account deficit with the United States of $8\frac{1}{2}$ per cent from \$954 million in 1960 to \$1,035 million in 1961, a small advance in the surplus with the United Kingdom from \$90 million to \$99 million, and an improvement with Other Countries of a substantial magnitude from a deficit of about \$50 million to a surplus of nearly \$200 million. Within the last-named area, it was again the sharp climb of roughly 70 per cent in merchandise exports to the "other countries" group which was the predominant cause for the rise in the Other Countries' surplus, as changes in the balances on both merchandise and non-merchandise accounts with the Rest of the Sterling Area and the OEEC and on "invisible" transactions with the "other countries" were of little consequence.

About one-third of the \$81 million addition to the deficit with the United States originated from merchandise trade, with exports declining a shade from \$2,303 million to \$2,290 million in the nine months of 1961, and with imports inching up from \$2,800 million to \$2,814 million. Fairly substantial declines were recorded in exports of iron ore, uranium, copper and semi-fabricated steel products, while exports of other commodities such as nickel, crude petroleum and aircraft grew. Higher imports were noted of commodities such as fresh pork, aircraft parts, chemicals and allied products, while some other imports were lower, of which examples are provided by many types of primary and secondary steel products and automobiles and parts. Some factors referred to above in the analysis of Canada's non-merchandise transactions with all foreign countries played an important part in widening the deficit on "invisibles" with the United States in the first three quarters of 1961 by \$54 million from \$457 million to \$511 million. These were the unusually heavy

Summary of Current Transactions with the
United States, United Kingdom and Other Countries, 1960 and 1961
and Change between the Periods

(millions of dollars)

<u>Third Quarter</u>	<u>All Countries</u>			<u>United States</u>		
	1960	1961	Change	1960	1961	Change
Merchandise exports (adjusted)	1,400	1,546	+ 146	769	855	+ 86
Merchandise imports (adjusted)	1,318	1,426	+ 108	853	942	+ 89
Balance on merchandise trade	+ 82	+ 120	+ 38	- 84	- 87	- 3
Other current receipts	559	586	+ 27	438	463	+ 25
Other current payments	763	786	+ 23	520	537	+ 17
Balance on non-merchandise transactions	- 204	- 200	+ 4	- 82	- 74	+ 8
Current account balance	- 122	- 80	+ 42	- 166	- 161	+ 5

January to September

Merchandise exports (adjusted)	4,006	4,250	+ 244	2,303	2,290	- 13
Merchandise imports (adjusted)	4,155	4,167	+ 12	2,800	2,814	+ 14
Balance on merchandise trade	- 149	+ 83	+ 232	- 497	- 524	- 27
Other current receipts	1,312	1,359	+ 47	969	1,000	+ 31
Other current payments	2,076	2,188	+ 112	1,426	1,511	+ 85
Balance on non-merchandise transactions	- 764	- 829	- 65	- 457	- 511	- 54
Current account balance	- 913	- 746	+ 167	- 954	-1,035	- 81

<u>Third Quarter</u>	<u>United Kingdom</u>			<u>Other Countries</u>		
	1960	1961	Change	1960	1961	Change
Merchandise exports (adjusted)	243	234	- 9	388	457	+ 69
Merchandise imports (adjusted)	140	140	-	325	344	+ 19
Balance on merchandise trade	+ 103	+ 94	- 9	+ 63	+ 113	+ 50
Other current receipts	53	52	- 1	68	71	+ 3
Other current payments	108	105	- 3	135	144	+ 9
Balance on non-merchandise transactions	- 55	- 53	+ 2	- 67	- 73	- 6
Current account balance	+ 48	+ 41	- 7	- 4	+ 40	+ 44

January to September

Merchandise exports (adjusted)	683	674	- 9	1,020	1,286	+266
Merchandise imports (adjusted)	467	435	- 32	888	918	+ 30
Balance on merchandise trade	+ 216	+ 239	+ 23	+ 132	+ 368	+236
Other current receipts	151	144	- 7	192	215	+ 23
Other current payments	277	284	+ 7	373	393	+ 20
Balance on non-merchandise transactions	- 126	- 140	- 14	- 181	- 178	+ 3
Current account balance	+ 90	+ 99	+ 9	- 49	+ 190	+239

remittances of dividends by subsidiaries in the first quarter, lower United States defence expenditures in Canada, reduced receipts of miscellaneous income and the offsetting rise in tourist receipts. Net payments on freight account were moderately higher.

In transactions with the United Kingdom the decline in merchandise imports of \$32 million from \$467 million to \$435 million was more than three times as large as the minor dip in exports, which were estimated at \$683 million and \$674 million, respectively, in the 9 months of 1960 and 1961. Varied and offsetting changes took place among exports to the United Kingdom, while among imports automobiles were considerably fewer. Receipts on non-merchandise transactions declined by \$7 million from \$151 million to \$144 million, while payments rose by the same amount from \$277 million to \$284 million.

An important element in the phenomenal rise of exports to Other Countries has been the expanded grain shipments already referred to above. The Communist group of countries took more than one-half of the increased exports while Japan and Latin American countries (notably Argentina, Brazil and Cuba) were other principal destinations of larger shipments of Canadian goods in the first three quarters of 1961.

Capital movements

During the third quarter of 1961 capital inflows for both direct and portfolio investment moderated somewhat. In part the decline in direct investment reflected the absence of special transactions covering the acquisition of going concerns and in part the phasing of a few major projects. The portfolio movement was influenced by the receipt of smaller amounts from the sale to non-residents of new issues and by large repurchases of outstanding issues from overseas countries. Retirements of foreign-held Canadian issues of securities were, on the other hand, unusually low. Although there were large shifts in their composition and ownership, on balance there was little change in Canadian dollar holdings of foreigners in the quarter. Official holdings of gold and foreign exchange were reduced but most of this change was directly related to extension of credit by the International Monetary Fund to the United Kingdom and to this extent is offset in other capital movements. The largest single category of movement in the quarter was an outflow of \$140 million representing increased private and banking holdings of foreign exchange by Canadians.

Capital movements in the long-term forms shown separately in statements of the Canadian balance of international payments (including long-term transactions grouped with other capital movements) totalled \$148 million in the third quarter, which was of course substantially above the current account deficit in this period. This condition is seasonally characteristic. In the nine months of 1961 inflows in these forms have been equivalent to two-thirds of the current account deficit, while for the corresponding period of 1960 the proportion was nearly 90 per cent.

Geographically, in the nine months of 1961, the net capital inflow in these forms from the United States was somewhat larger than the overall movement. There have been significant outflows to overseas countries for direct investment, for the repurchase or retirement of Canadian securities, for trade financing, etc. which have been more than sufficient to offset inflows in other long-term forms.

The net inflow of capital for direct investment in foreign-controlled enterprises in Canada in the third quarter is estimated to have been \$75 million compared with \$120 million and \$135 million in the first and second quarters respectively. A substantial amount of the decline from the second quarter reflected reduced net inflows for the acquisition of existing enterprises etc., and for a few large resource-based undertakings to which transfers were seasonally low or declining with the approaching completion of major projects.

As would be expected with the relative absence of large non-recurring type of transactions found in some earlier quarters, the continuing inflows to resource-based industries were of relatively greater importance in direct investment inflows in the third quarter, although in amount they were smaller. Petroleum, natural gas, and mining accounted for perhaps three quarters of the movement in the quarter. These industries have attracted a smaller proportion of the inflow in the three quarters of 1961 than they did in 1960 as a whole, but in that year they included some major acquisitions of existing enterprises.

Geographically, inflows from the United States made up a more important part of the total for direct investment in the third quarter than in the second, accounting for perhaps three-fifths of it. Over the three quarters only a slightly smaller proportion came from the United States, while in 1960 about 68 per cent of the net flows originated in that country.

The outflow of capital from Canada for direct investment in enterprises abroad during the third quarter is estimated at \$15 million. This figure was less than half the rate of outflow for either the first or second quarter, but it brought the net movement in the first nine months of 1961 to \$85 million, equal to the total for the whole of 1960. As in the second quarter some two thirds of the movement in the third was to overseas countries.

Transactions during the third quarter in long-term Canadian securities resulted in a net capital inflow of \$69 million. The net inflow of \$105 million from the sale to non-residents of new issues was partially offset by net outflows of Canadian capital for the repurchase of \$12 million outstanding bonds and debentures and for the retirement of \$24 million of issues held by non-residents.

Net Sales of Outstanding Canadian Stocks
to Non-Residents
(millions of dollars)

Quarter	Total	United States	Other Countries
1960 I Q	13	5	8
II Q	24	22	2
III Q	10	14	- 4
IV Q	2	13	- 11
1961 I Q	13	21	- 8
II Q	32	46	- 14
III Q	-	22	- 22

The direction of net trade in outstanding Canadian bonds and stocks was reversed in the third quarter. Inflows of \$44 million and \$66 million for the first and second quarters respectively have been replaced by an outflow of \$12 million in the third. Another feature of transactions in Canadian securities has been the persistence of sustained sales of outstanding Canadian stocks to residents of the United States and sustained repurchases of them from the United Kingdom and other overseas countries.

New Issues of Canadian Bonds Sold to
United States Residents
(millions of dollars)

Quarter	Contracts	Deliveries
1960 I Q	182	185
II Q	100	125
III Q	53	33
IV Q	103	26
1961 I Q	117	75
II Q	69	137
III Q	45	81

Sales of new issues of stocks and bonds to non-residents produced \$105 million in the third quarter including some deliveries on earlier contracts. The figure was well below the total of \$168 million in the second quarter but larger than for other quarters since the second quarter of 1960. Retirements of Canadian securities held by non-residents amounted to \$24 million the smallest sum recorded for any quarter for a number of years.

Transactions in long-term foreign securities were unimportant on balance among capital movements in the quarter. A small outflow for the purchase of new issues was practically offset by repurchases and retirements by non-residents of outstanding issues held by Canadians.

By the close of the third quarter the year's total capital inflow from transactions in all portfolio securities was \$255 million as compared with \$322 million for the first nine months of 1960.

There were no changes during the quarter in loans by the Government of Canada to overseas countries or in Canada's subscriptions to international financial agencies. The Government facilitated some extensions of trade credits through the provision of export credits insurance and guarantees which are the subject of later comment.

Canadian dollar holdings of foreigners changed little on balance in the third quarter after declining \$72 million in the second. Their holdings of Government of Canada treasury bills declined by \$34 million but their deposits rose by \$33 million. Practically all the decline in treasury bill holdings was for the account of residents of overseas countries whose holdings had increased by \$26 million in the second quarter when holdings of United States residents fell by \$102 million. Non-residents' holdings at the end of September were \$44 million in sharp contrast with the total of \$163 million five months earlier. Throughout the third quarter yields on 3 month treasury bills in the United States were well below half of one per cent less than in Canada, and for eight successive weeks the differential was less than one quarter of one per cent. In the second quarter there were five successive weeks in which the differential was one per cent or more. After allowing for exchange protection there were only three weeks in the third quarter in which net yields in Canada exceeded those in the United States by as much as one quarter of one per cent, and the differential then did not exceed 40 base points, while in seven weeks it was less than one tenth of one per cent. In a few weeks in the second quarter it exceeded three quarters of one per cent.

Change in Canadian dollar holdings
of foreigners
(million of dollars)

Quarter		Total	Treasury Deposits	
			Bills	etc.
1960	I Q	- 2	- 8	+ 6
	II Q	- 2	-10	+ 8
	III Q	+45	+27	+18
	IV Q	+79	+47	+32
1961	I Q	- 5	+32	-37
	II Q	-72	-76	+ 4
	III Q	- 1	-34	+33

While Canadian dollar deposits of foreigners increased by about the amount of the decline in their holdings of Canadian treasury bills, the geographical distribution of the changes was quite different. Deposits of residents of the United States rose by about \$25 million and of residents of overseas countries by about \$9 million. As a result the Canadian dollar holdings in the form of both treasury bills and deposits rose in the case of United States residents by about \$25 million, and fell by slightly more than this amount in the case of residents of overseas countries; there was an increase of \$3 million in holdings by residents of the United Kingdom and a decrease of \$26 million in holdings by residents of Continental Europe.

Canada's official holdings of gold and foreign exchange were reduced during the third quarter but a large part of the change reflected transfers in connection with the arrangements

Official Holdings of
Gold and United States dollars
(millions of United States dollars)

End of	Amount	Change in Period
1961 I Q	1,935	+106
II Q	1,985	+ 50
III Q	1,924	- 61(1)
July	1,960	- 25
Aug.	1,944	- 16(2)
Sept.	1,924	- 20(2)

Note: Includes special transactions under arrangements related to U.K. drawing from IMF. (1) -50 (2) -25

involved in the extension of credit by the international Monetary Fund to the United Kingdom, discussed below. The decrease in these external assets represents a capital inflow of \$62 million in terms of Canadian dollars. The figure includes an outflow of about \$1 million to increase official holdings of sterling and an inflow of \$63 million from reduced official holdings of gold and United States dollars.

Some major changes are reflected in the capital account in the third quarter arising from the provision by the International Monetary Fund of support for the foreign payments position of the United Kingdom. In August arrangements were made for a drawing by the United Kingdom of the equivalent of US \$1,500 million in nine currencies held by the Fund, including \$75 million in Canadian dollars. At the same time the Fund replenished its holdings of each of these currencies in an amount equal to one-third of the drawings made by the United Kingdom, through sales of

gold. The net effect was that Canadian liabilities to the International Monetary Fund, which are a component of "other capital movements", fell by \$52 million and there was a decline of about the same amount in official holdings of gold and foreign exchange.

The composition of "other capital movements" in recent quarters is given in a statement. In total they gave rise to a substantial outflow of \$109 million in the third quarter. An outflow from this group of mixed transactions is characteristic of the third quarter; there have been outflows in this period with one exception each year since 1950.

Some special features stand out in this statement. There was a significant growth in private and banking holdings of foreign exchange. The capital outflow of \$140 million recorded for this movement followed three quarters of inflow aggregating \$255 million. Canadian holdings in these forms exceeded \$1.1 billion at the end of 1960 and, taking into account changes in the exchange value, were of roughly the same order of magnitude at the end of the third quarter.

Reference has already been made to the effects arising from the United Kingdom drawing on the International Monetary Fund.

Outstanding borrowings from non-residents by finance companies and non-resident holdings of Canadian commercial paper, which were important sources of external capital in the preceding quarters, declined very slightly in the third, new borrowing falling just short of repayments in this period. Some indication of money market conditions has been given in the paragraph dealing with foreign holdings of Canadian treasury bills.

Another factor which has played an increasing role in the capital account has been the extension of export credit facilities. Canada's Export Credits Insurance Corporation has long made

available insurance to Canadian exporters of goods and services to protect them against non-payment by foreign buyers due to credit and political risks involved in foreign trade. The existence of this insurance facilitated financing but did not itself, of course, provide it. In the spring of 1960 the Chartered Banks of Canada joined in setting up the Export Finance Corporation of Canada Ltd. to finance exports of capital goods through the provision of medium term credit ranging up to five years. Complementing these medium term arrangements, the guarantee facilities of the Export Credits Insurance Act were extended to long term credit and the Government agency, the Export Credits Insurance Corporation, was authorized to buy guaranteed instruments for direct financing of export sales.

Apart from these facilities the Government has guaranteed substantial credits for the Canadian Wheat Board to conclude sales of wheat and barley to Communist China on a short term credit basis.

The provision of export credits insurance does not in itself always imply a net extension of credit from Canadian sources. Many of the claims are receivable in United States funds. In some cases they may in effect be discounted with banks or affiliates outside Canada, and in others, they may be substituted temporarily for foreign cash investments with an immediate sale of the foreign exchange thereby released. Net capital outflows arising from these trade credits are a part of "other capital movements".

Composition of "Other Capital Movements"
(millions of dollars)

	1960				1961		
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter
Transactions with all countries							
International Financial Agencies ⁽¹⁾							
Canadian dollar subscriptions	-	- 1	- 2	- 6	-	- 9	-
Short-term Canadian dollar holdings	-	3	2	-	1	-	- 52
Other long-term capital transactions	3	43	- 3	15	- 1	-29	20
Bank balances and other short-term funds abroad (excluding official reserves)	32	-79	-87	73	128	54	-140
Borrowings from non-residents by finance companies, and non-resident holdings of commercial paper (1961 only)	- 6	11	6	54	71	22	- 3
All other transactions including changes in loans and accounts receivable and payable ⁽²⁾	-100	185	45	55	110	169	66
TOTAL (Item D 17)	- 71	162	-39	191	309	207	-109

(1) International Bank for Reconstruction and Development, International Monetary Fund, and International Development Association.

(2) Includes also balancing item representing difference between direct measurements of current and capital accounts.

NOTES: The figures in this statement are based on incomplete data, and make use in some cases of statistics compiled in other countries. The items are therefore subject to greater possible error than others in the balance of payments statement.

A minus sign indicates an outflow of capital from Canada.

United States Dollar in Canada
(Canadian Cents)

<u>Period</u>		<u>High</u>	<u>Low</u>	<u>Close</u>	<u>Noon Average</u>
1961	I Q	99.69	98.25	98.91	98.99
	II Q	103.53	98.59	103.50	99.42
	III Q	104.00	103.00	103.00	103.21
	June	103.53	98.66	103.50	100.55
	July	104.00	103.00	103.09	103.41
	Aug.	103.41	103.00	103.12	103.15
	Sept.	103.16	103.00	103.00	103.08

Quotations for the United States dollar reported on transactions between banks in the Canadian exchange market are given in the accompanying statement. In the third quarter the rates for the United States dollar were higher than in any period since 1951. In that year the United States dollar traded at a high of 107.31 cents and the average noon rate for the year as a whole was 105.28 cents. In the intervening period the United States dollar had traded in Canada down to 94.22 cents.

The last page of this report reproduces Table I of the forthcoming report "The Canadian Balance of International Payments, 1960 and International Investment Position", D.B.S. Catalogue No. 67-201. The table gives revised annual estimates of the Canadian balance of international payments for 1959 and 1960 with bilateral detail.

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1961 are preliminary and

		1959		1960	
		III	IV	I	II
A	Current Receipts				
1	Merchandise exports (adjusted)	1,286	1,449	1,283	1,323
3	Gold production available for export	33	37	44	35
4	Travel expenditures	213	61	36	91
5	Interest and dividends	40	69	36	40
6	Freight and shipping	105	110	102	115
7	Inheritances and immigrants' funds	33	24	18	29
11	All other current receipts	106	97	100	107
12	Total Current Receipts	1,816	1,847	1,619	1,740
B	Current Payments				
1	Merchandise imports (adjusted)	1,380	1,423	1,327	1,510
4	Travel expenditures	216	121	119	168
5	Interest and dividends	151	222	149	164
6	Freight and shipping	149	144	114	137
7	Inheritances and emigrants' funds	47	48	38	43
9	Official contributions	22	19	10	10
11	All other current payments	173	173	183	178
12	Total Current Payments	2,138	2,150	1,940	2,210
	Balance on Merchandise Trade	- 94	+ 26	- 44	- 187
	Balance on Other Transactions, excluding B 9	- 206	- 310	- 267	- 273
	Official Contributions	- 22	- 19	- 10	- 10
C	Current Account Balance	- 322	- 303	- 321	- 470
D	Capital Account				
	Direct Investment				
1	Direct investment in Canada	+ 85	+ 183	+ 196	+ 144
2	Direct investment abroad	- 24	- 18	- 15	- 25
	Canadian Securities				
3a	Trade in outstanding bonds and debentures	+ 32	+ 11	+ 19	+ 15
3b	Trade in outstanding common and preference stocks	+ 26	+ 19	+ 13	+ 24
4	New issues	+ 213	+ 197	+ 209	+ 146
5	Retirements	- 61	- 71	- 50	- 78
	Foreign Securities				
6	Trade in outstanding issues	- 7	- 8	+ 7	- 5
7	New issues	- 1	- 7	- 2	- 3
8	Retirements	+ 3	+ 4	+ 6	+ 3
	Loans by Government of Canada				
9	Drawings	-	-	-	-
10,11	Repayments	-	+ 25	-	+ 7
13	Subscriptions in gold and U.S. dollars to international financial agencies	-	- 59	-	-
14	Change in Canadian dollar holdings of foreigners	+ 22	- 44	- 2	- 2
16	Change in official holdings of gold and foreign exchange (increase, minus)	- 3	+ 67	+ 11	+ 82
17	Other capital movements	+ 37	+ 4	- 71	+ 162
E	Net Capital Movement	+ 322	+ 303	+ 321	+ 470

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports on B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance trans-
B 11) actions, and business services.

BALANCE OF INTERNATIONAL PAYMENTS

data for 1960 are subject to revision.

1960		1 9 6 1			Annual Totals			Four Quarters ending Sept. 30, 1961	
III	IV	I	II	III	1958	1959	1960		
(millions of dollars)									
1,400	1,394	1,262	1,442	1,546	4,887	5,150	5,400	5,644	A
42	41	41	42	41	160	148	162	165	1
221	72	38	101	252	349	391	420	463	3
36	66	35	56	39	168	182	178	196	4
118	107	99	116	127	401	420	442	449	5
31	24	19	28	31	97	109	102	102	6
111	102	99	99	96	375	392	420	396	7
									11
1,959	1,806	1,593	1,884	2,132	6,437	6,792	7,124	7,415	12
1,318	1,390	1,263	1,478	1,426	5,066	5,572	5,545	5,557	B
213	127	126	173	222	542	598	627	648	1
161	195	204	173	170	612	671	669	742	4
141	141	114	138	151	460	525	533	544	5
50	50	40	46	52	145	165	181	188	6
16	24	12	8	12	53	72	60	56	7
182	183	181	187	179	690	693	726	730	9
									11
2,081	2,110	1,940	2,203	2,212	7,568	8,296	8,341	8,465	12
+ 82	+ 4	- 1	- 36	+ 120	- 179	- 422	- 145	+ 87	
- 188	- 284	- 334	- 275	- 188	- 899	-1,010	-1,012	-1,081	
- 16	- 24	- 12	- 8	- 12	- 53	- 72	- 60	- 56	
- 122	- 304	- 347	- 319	- 80	-1,131	-1,504	-1,217	-1,050	C
									D
+ 168	+ 137	+ 120	+ 135	+ 75	+ 420	+ 550	+ 645	+ 467	1
- 29	- 16	- 35	- 35	- 15	- 48	- 80	- 85	- 101	2
- 19	- 12	+ 31	+ 34	- 12	-	+ 91	+ 3	+ 41	3a
+ 10	+ 2	+ 13	+ 32	-	+ 88	+ 110	+ 49	+ 47	3b
+ 52	+ 40	+ 85	+ 168	+ 105	+ 677	+ 707	+ 447	+ 398	4
- 32	- 93	- 69	- 91	- 24	- 158	- 258	- 253	- 277	5
+ 2	- 24	+ 3	-	+ 3	+ 13	- 32	- 20	- 18	6
- 2	- 11	- 5	- 18	- 6	- 17	- 13	- 18	- 40	7
+ 7	+ 2	+ 2	+ 2	+ 2	+ 7	+ 12	+ 18	+ 8	8
-	-	-	-	-	- 34	- 1	-	-	9
-	+ 25	+ 3	+ 8	-	+ 64	+ 34	+ 32	+ 36	10,11
- 1	- 2	-	-	-	-	- 59	- 3	- 2	13
+ 45	+ 79	- 5	- 72	- 1	+ 106	+ 13	+ 120	+ 1	14
- 40	- 14	- 105	- 51	+ 62	- 109	+ 70	+ 39	- 108	16
- 39	+ 191	+ 309	+ 207	- 109	+ 122	+ 360	+ 243	+ 598	17
+ 122	+ 304	+ 347	+ 319	+ 80	+1,131	+1,504	+1,217	+1,050	E

NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.

TABLE I. Current and Capital Account of the Canadian Balance of International Payments, 1959 and 1960

No.	Account	All countries		United States		United Kingdom		Other sterling area		Other OEEC countries		All other countries	
		1959	1960 ^P	1959	1960 ^P	1959	1960 ^P	1959	1960 ^P	1959	1960 ^P	1959	1960 ^P
millions of dollars													
A	Current receipts:												
1	Merchandise exports (adjusted)	5,150	5,400	3,191	3,039	781	924	288	340	449	599	441	498
2	Mutual Aid to NATO countries	63	43	..	..	..	..	..	..	..	..	..	..
3	Gold production available for export	148	162	148	162	—	—	—	—	—	—	—	—
4	Travel expenditures	391	420	351	375	18	20	6	6	11	13	5	6
5	Interest and dividends	182	178	99	105	35	34	28	18	11	11	9	10
6	Freight and shipping	420	442	228	220	80	93	26	31	49	57	37	41
7	Inheritances and immigrants' funds	109	102	52	50	26	26	7	6	16	15	8	5
11	All other current receipts	392	420	311	330	43	50	7	8	20	20	11	12
12	Total current receipts	6,855	7,167	4,380	4,281	983	1,147	362	409	556	715	511	572
B	Current payments:												
1	Merchandise imports (adjusted)	5,572	5,545	3,727	3,715	618	611	263	284	364	371	600	564
4	Travel expenditures	598	627	448	462	62	70	13	14	60	65	15	16
5	Interest and dividends	671	669	547	548	90	81	1	1	31	37	2	2
6	Freight and shipping	525	533	326	324	85	89	3	4	95	99	16	17
7	Inheritances and emigrants' funds	165	181	123	141	26	25	3	2	11	11	2	2
9	Official contributions	72	60	—	—	—	3	64	41	1	4	7	12
10	Mutual Aid to NATO countries	63	43	..	..	..	..	..	..	..	..	..	..
11	All other current payments	693	726	439	447	89	97	17	18	114	129	34	35
12	Total current payments	8,359	8,384	5,610	5,637	970	976	364	364	676	716	676	648
	Balance on merchandise trade	- 422	- 145	- 536	- 676	+163	+313	+25	+56	+ 85	+228	-159	-66
	Balance on other transactions, excluding B9	-1,010	-1,012	- 694	- 680	-150	-139	+37	+30	-204	-225	+ 1	+ 2
	Official contributions	- 72	- 60	—	—	—	- 3	-64	-41	- 1	- 4	- 7	-12
C	Current account balance	-1,504	-1,217	-1,230	-1,356	+ 13	+171	- 2	+45	-120	- 1	-165	-76
D	Capital account:												
	Direct investment:												
1	Direct investment in Canada	+ 550	+ 645	+ 424	+ 437	+ 87	+119	- 1	+ 5	+ 40	+ 83	—	+ 1
2	Direct investment abroad	- 80	- 85	- 7	- 48	- 44	- 15	- 8	- 4	- 5	- 15	- 16	- 3
	Canadian securities:												
3a	Trade in outstanding bonds and debentures	+ 91	+ 3	+ 19	- 9	+ 4	- 13	—	—	+ 64	+ 25	+ 4	—
3b	Trade in outstanding common and preference stocks	+ 110	+ 49	+ 75	+ 54	+ 7	- 16	—	—	+ 28	+ 11	—	—
4	New issues	+ 707	+ 447	+ 622	+ 381	+ 45	+ 26	—	—	+ 40	+ 39	—	+ 1
5	Retirements	- 258	- 253	- 211	- 200	- 30	- 27	—	—	- 16	- 25	- 1	- 1
	Foreign securities:												
6	Trade in outstanding issues	- 32	- 20	- 34	+ 4	+ 2	- 3	—	—	—	- 1	—	-20
7	New issues	- 13	- 18	- 8	- 13	—	—	—	- 1	—	—	- 5	- 4
8	Retirements	+ 12	+ 18	+ 6	+ 12	—	—	+ 2	+ 1	—	—	+ 4	+ 5
	Loans by Government of Canada:												
9	Drawings	- 1	—	—	—	—	—	- 1	—	—	—	—	—
10	Repayment of post-war loans	+ 34	+ 32	—	—	+ 16	+ 17	—	—	+ 18	+ 15	—	—
11	Repayment of war loans	—	—	—	—	—	—	—	—	—	—	—	—
13	Subscriptions in gold and U.S. dollars to international financial agencies	- 59	- 3	- 59	- 3	—	—	—	—	—	—	—	—
14	Change in Canadian dollar holdings of foreigners	+ 13	+ 120	+ 8	+ 60	- 10	+ 9	- 9	- 3	+ 10	+ 7	+ 14	+47
16	Change in official holdings of gold, U.S. dollars and sterling (increase, minus) ..	+ 70	+ 39	+ 67	+ 39	+ 3	—	—	—	—	—	—	—
17	Other capital movements	+ 360	+ 243	+ 447	+ 265	+ 17	- 44	-23	+ 7	- 74	+ 23	- 7	- 8
E	Net capital movement	+1,504	+1,217	+1,349	+ 979	+ 97	+ 53	-40	+ 5	+105	+162	- 7	+18
G	Balance settled by exchange transfers	—	—	- 119	+ 377	-110	-224	+42	-50	+ 15	-161	+172	+58
	Total financing of current account balance (item C)	+1,504	+1,217	+1,230	+1,356	- 13	-171	+ 2	-45	+120	+ 1	+165	+76

Notes: Other Sterling Area includes the countries of the Commonwealth, United Kingdom dependencies, and Ireland, Iraq, Iceland, Burma, Libya and Jordan. Other OEEC Countries includes all the countries participating in the Organization for European Economic Co-operation which are not also members of the sterling area: namely, Austria, Belgium, Luxembourg, Denmark, France, West Germany, Greece, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and Turkey. The All Other Countries group includes Latin America, non-sterling area countries in Asia, continental European countries not in OEEC, the IBRD, IFC and IMF and all other countries not specified above.

A2, B10 Mutual Aid is not included in figures for countries or areas, but is included in total receipts and total payments with all countries.
D A minus sign indicates an outflow of capital from Canada. Some capital transactions with other sterling area are included under the United Kingdom, and with other overseas countries under the United States.

D13 International Bank for Reconstruction and Development, International Monetary Fund, International Finance Corporation and International Development Association.

D 17 Also includes balancing item representing unrecorded capital movements and errors and omissions.

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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FOURTH QUARTER 1961, AND

PRELIMINARY ESTIMATES FOR THE YEAR 1961

In 1961 a substantial contraction to \$989 million occurred in the imbalance in Canada's current transactions in goods and services with other countries from \$1,217 million in 1960. At this level the current deficit was less than in any year since 1955.

Bringing this change about was the emergence of an export balance on merchandise account of \$179 million for the first time for many years. The rises in exports and in the export balance were most concentrated in trade with foreign overseas countries, with a large part of the gain occurring in shipments of wheat to China and Eastern Europe. At the same time trade in both directions between Canada and the United States also increased significantly.

The source of the deficit on current account was the rising imbalance from non-merchandise transactions which rose 9 per cent to \$1,168 million, the highest level yet reached. Contributing to this deficit were larger net transfers of interest and dividends to non-residents and larger net payments for business and other services which more than offset the marked reduction in the deficit on travel account.

The flow of foreign capital into long-term investments in Canada in 1961 was somewhat smaller than in 1960, with a much larger proportionate decrease in investments in securities of governments and municipalities than in Canadian concerns. Capital movements into Canada, apart from changes in official holdings of gold and foreign exchange, were larger than in 1960, but included substantially greater amounts in short-term forms. There was, on the other hand, a large outflow to augment official reserves in 1961, in contrast to a small inflow in 1960.

Among effects of the continued inflows of capital has been a further increase in Canada's net balance of international indebtedness to around \$18 billion. This balance which measures the excess of foreign investments and other liabilities abroad over Canada's external assets amounted to \$16.9 billion at the end of 1960. The principal change contributing to the rise was the continued increase in foreign long-term investments in Canada to over \$23 billion at the end of 1961.

Among leading economic influences on the Canadian balance of payments were such factors as general rises in activity in the United States and Canada, additional overseas sales of wheat and other Canadian commodities in reflection of further growth in the levels of demand in many countries, and changes in Canadian economic policy announced in the June Budget. Of particular significance to the balance of payments were the resulting changes in exchange rates for the Canadian dollar with a discount prevailing from the second half of the year, and with reductions in interest rates in relation to rates abroad. While the strength in foreign demand for Canadian products led to a substantial rise in exports of both goods and services, there was also a marked increase in Canadian imports of merchandise in the latter part of the year. This seems to have reflected the rising level of Canadian economic activity with some additions to inventories and other business investment as well as a rising industrial use of imported materials and higher consumption accompanying the higher tempo of business in Canada.

Prepared in the Balance of Payments Section, International Trade Division.

503-509-121

Export balance on merchandise trade

The largest single change contributing to the reduction in the current account deficit was the emergence of an export balance in the second half of 1961 compared with the import balance in 1960, which was concentrated in the first half year. On an annual basis the change was from an import balance of \$145 million in 1960 to an export balance of \$179 million in 1961. These figures are based on trade statistics adjusted for balance of payments purposes. Bringing about the change was a greater increase in exports than in imports with each being higher than ever previously recorded in both the year as a whole and in the fourth quarter. A part of the increased value of Canadian trade in 1961 is a reflection of the variation in the foreign exchange value of the Canadian dollar.

Exports rose sharply by 9 per cent in 1961 to a new peak of \$5,896 million with most of this rise being in volume. During the year there was a rising trend in exports to the United States with the second half year substantially higher than the first. Exports to other foreign countries were also substantially higher than in 1960 from the second quarter on, reflecting in particular large sales of wheat to Communist China and Eastern Europe. Exports were also notably higher to Japan, Latin America and to some countries in Western Europe. At the same time exports to the United Kingdom were maintained close to the high level of the previous year and shipments to other countries of the Sterling Area were only slightly less. These trends had the effect of reducing the proportion of exports to the United States, United Kingdom and other Sterling Area countries and increasing the ratio of sales to other foreign countries.

The rise in wheat exports represented about half of the annual increase. Other important contributors to the increment were such commodities as nickel, forest products, petroleum and natural gas, cattle, aircraft, and a variety of other manufactured products. But offsetting a part of the increase were declines in shipments of such major commodities as uranium, iron ore, copper and aluminum.

In the year 1961 as a whole the adjusted value of imports used in the balance of payments was \$5,717 million, or some 3 per cent more than in 1960. This percentage rise is not greatly different from preliminary indications of the rises in average prices during the year which would be appropriate to these figures. The record value in 1961 compares with the highest earlier annual total of \$5,565 million in 1956. But in that year average import prices were considerably lower than in 1961. Consequently the volume of imports in 1961 appears to have been still less than in the earlier peak year, although by the final quarter the difference in volume between the two peaks would not likely have been wide.

Rising trends in imports during 1961 were an important feature. During the year gains were concentrated in the second half as the first two quarters of the year were both less than in 1960. The rising course started before the middle of the year, and in the final quarter the total value was slightly higher than in any previous quarter, being some 12 per cent above the same quarter of 1960. Close to half of this rise reflects higher prices in the fourth quarter of 1961. The higher dollar value of imports has been influenced particularly by the decline of the Canadian dollar in the second half of the year.

The advance in imports was widely distributed as to source. When adjusted for balance of payments purposes, the value imported from the United States was greater than in any earlier years except 1956 and 1957. Imports from the United Kingdom when likewise adjusted were slightly less than in 1960.

The rise in the value of imports between 1960 and 1961 was widely distributed by commodities, apart from the concentration of deliveries of both civilian and military aircraft, which are dealt with specially when adjusting the values for balance of payments use. While complete commodity details are not yet on hand, available indications on the upturn in the second half point to increased receipts of many industrial materials and in machinery and equipment. In the latter part of the year there were also imports of some grains and other agricultural commodities of which Canadian supplies were short because of reduced production in Western Canada. Some other imports of consumer goods were also higher towards the end of the year.

Deficit from services and other non-merchandise items

Due to the emergence of the trade surplus, 1961 was the first year since 1954 in which the net payments on non-merchandise transactions outweighed the current account deficit. The estimated deficit on non-merchandise transactions increased \$96 million, or 9 per cent, from \$1,072 million in

1960 to \$1,168 million in 1961. This rise resulted from a combination of sizable gains in the deficit on income and "other current transactions" accounts, offset to the extent of about a third by a decline in net travel payments. Within the "other current transactions" account, the widening deficit was concentrated in business services, miscellaneous income and government transactions, other than official contributions, which were reduced during 1961. Changes from 1960 in the balances of other accounts, including shipping, gold and inheritances and migrants' funds, were less pronounced.

INCOME ACCOUNT At \$575 million, net payments of interest and dividends accounted for nearly one half of the deficit on "invisibles" in 1961. The substantial expansion of \$84 million, or 17 per cent in the deficit on income account from \$491 million in 1960 was due to a rise in payments of interest and dividends of \$102 million, or 15 per cent, to an estimated total of \$771 million in 1961. This change was only partly counter-balanced by an increase in receipts of \$18 million, or 10 per cent, to \$196 million.

Income Account: Payments
(millions of dollars)

Period	Total	Interest	Dividends
1959	671	210	461
1960	669	239	430
1961	771	259	512
1960 I Q	149	54	95
II Q	164	65	99
III Q	161	53	108
IV Q	195	67	128
1961 I Q	204	61	143
II Q	173	68	105
III Q	173	58	115
IV Q	221	72	149

The increase in payments of \$102 million was made up of \$82 million of dividends and \$20 million of interest. At \$512 million, dividend remittances in 1961 were 19 per cent higher than \$430 million for 1960, and \$51 million, or 11 per cent, above the previous record total of \$461 million in 1959. In an over-the-year quarterly comparison, nearly three-fifths of the expansion was attributable to the confluence of dividend transfers by Canadian subsidiaries to their parents in the first quarter of 1961. For the year as a whole, income returned to non-residents on direct investment, including net profits of unincorporated branches, accounted for the entire gain in dividend payments, as remittances abroad on portfolio investment remained unchanged in the two years. Industrially, most of the gain in dividend payments was derived from firms engaged in manufacturing, mining and merchandising.

Interest payments at \$259 million were higher than ever before. About two-thirds of the \$20 million increase in the year was ascribable to large net new issues of corporate bonds and provincial and municipal debentures sold in the United States, mainly, during 1960 and the first half of 1961. Approximately one-third of the increase was due to the influence of the foreign exchange rate of the Canadian dollar, which moved from a premium position to that of discount during 1961.

More than four-fifths of interest and dividend payments flowed to the United States and over 10 per cent to the United Kingdom in 1960 and 1961.

TRAVEL EXPENDITURES A significant contraction occurred in Canada's deficit on travel account in both the fourth quarter and the year 1961. In the full year this deficit amounted to \$160 million compared with \$207 million in each of 1959 and 1960. The contraction in this annual deficit occurred in the travel account with the United States where receipts from United States travellers rose substantially while Canadian expenditures in the United States were slightly lower. On overseas account there was a further rise in the excess of Canadian expenditures overseas over receipts to \$136 million.

Canadian travel overseas continued to grow although at a slightly lower rate than in the previous year. Expenditures overseas increased some 9 per cent compared with a rise of 10 per cent in 1960. In both years the number of Canadians travelling overseas increased considerably more than these ratios in expenditures. In 1961 average expenditures overseas per person were generally less than in 1960. This seems to have been mainly a reflection of shorter lengths of stay outside of Canada, as costs would be higher because of the rise in the cost of foreign currencies. In addition, contributing to the more moderate rise in expenditures, there was relatively less use of foreign transportation facilities between Canada and overseas, and also a small contraction in average cost of transportation.

Travel Expenditures
(millions of dollars)

	1960	1961
<u>Receipts</u>		
United States	375	429
Overseas	45	44
All countries	420	473
<u>Payments</u>		
United States	462	453
Overseas	165	180
All countries	627	633
<u>Net Payments</u>		
United States	87	24
Overseas	120	136
All countries	207	160

In contrast to the continued rise in overseas travel there was a small drop in the volume of Canadian travel to the United States which was enough to lead to a slight contraction in travel expenditures there. This was

most evident in the second half of the year in automobile travel, following the higher cost to Canadians of United States currency, but appeared in travel by other means throughout the year. While average expenditures by Canadians in the United States often tended to be higher in 1961 this was not a consistent trend and some types of expenditures contracted significantly such as purchases of merchandise by tourists. Although the total expenditures by Canadians in the United States in 1961 were slightly less than in 1960, they remained considerably higher than in the years before 1959.

In contrast to the reduction in Canadian expenditures in the United States there was a further significant increase in the number and expenditures of United States travellers in Canada. This carried the total expenditures of non-residents in Canada to a new peak of \$473 million which is some 13 per cent over the previous high of \$420 million in 1960. The volume was higher in both halves of the year and average expenditures in Canadian dollars were considerably higher, particularly in the second half when the premium on United States funds prevailed.

FREIGHT AND SHIPPING Increases in both receipts and payments for freight and shipping services issued from the handling of a larger volume of trade, including petroleum exported to the United States, and higher payments to foreign vessels for the carriage of imports. Gains in receipts of \$25 million to \$467 million and in payments of \$21 million to \$554 million contributed to reducing the deficit on this account from \$91 million to \$87 million, representing about 7 1/2 per cent of net payments on non-merchandise transactions in 1961.

Official contributions in 1961 amounted to \$54 million, down from \$60 million in 1960. In the year under review, contributions under the Colombo Plan remained practically unchanged, while the two new vessels presented to the Government of the West Indies Federation were valued at \$5 1/2 million. However, gifts of wheat flour, milk powder and other relief supplies were lower, and donations of flour to the NATO food bank did not recur in 1961.

Miscellaneous Current Transactions
(millions of dollars)

	<u>Receipts</u>		<u>Payments</u>	
	<u>1960</u>	<u>1961</u>	<u>1960</u>	<u>1961</u>
Government, excluding official contributions	124	108	160	155
Personal and institutional remittances	24	23	97	98
Miscellaneous income	93	78	116	124
Business services	179	179	353	381
Total	420	388	726	758

The deficit on other government transactions was about \$11 million larger, following more decline in receipts than in payments. Most of the decrease in the receipts was estimated to be in expenditures in Canada for United States defence purposes. Cash payments for the NATO infrastructure programme in 1961 were about one-third of those for 1960, but this reduction was partially offset by special contributions in 1961 towards financing the United Nations operations in the Congo and elsewhere.

A deficit of \$202 million resulted from net payments for business services in 1961 which was over 15 per cent greater than in 1960. Contributing to this has been such factors as rising production during the year in manufacturing and

in other branches of the economy, the higher Canadian dollar cost of services arising from the premium on foreign exchange, and an apparent general tendency for payments of this type to increase. Lower receipts of miscellaneous income and the virtual termination in 1960 of special compensation for contract cancellations, combined with larger remittances, resulted in raising the 1961 deficit on this item substantially.

Gold production available for export, estimated at \$158 million in 1961, was \$4 million below the value for 1960 but above the average level for the six most recent years by about the same amount.

Transactions by areas

The bilateral distribution of the decline in the current account deficit in 1960 was repeated in 1961. While both the widening in the deficit with the United States and in the surplus with the United Kingdom continued, the amounts of change were appreciably reduced. On the other hand the development of a large surplus with Other Countries took place rapidly within the year. The deficit with the United States rose \$37 million, or about 2 1/2 per cent, from \$1,356 million in 1960 to \$1,393 million in 1961, while the surplus with the United Kingdom went up slightly from \$171 million to \$182 million. The turn-around from a deficit of \$32 million in 1960 to a surplus of \$222 million with Other Countries amounted to \$254 million, roughly the same as the sizable improvement which occurred in 1960.

Summary of Current Transactions with the
United States, United Kingdom and Other Countries, 1960 and 1961
and Change between the Periods

(millions of dollars)

<u>Fourth Quarter</u>	<u>All Countries</u>			<u>United States</u>		
	1960	1961	Change	1960	1961	Change
Merchandise exports (adjusted)	1,394	1,624	+ 230	736	905	+ 169
Merchandise imports (adjusted)	1,390	1,554	+ 164	915	1,016	+ 101
Balance on merchandise trade	+ 4	+ 70	+ 66	- 179	- 111	+ 68
Other current receipts	412	423	+ 11	273	278	+ 5
Other current payments	720	759	+ 39	496	538	+ 42
Balance on non-merchandise transactions	- 308	- 336	- 28	- 223	- 260	- 37
Current account balance	- 304	- 266	+ 38	- 402	- 371	+ 31

Calendar Year

Merchandise exports (adjusted)	5,400	5,896	+ 496	3,039	3,215	+ 176
Merchandise imports (adjusted)	5,545	5,717	+ 172	3,715	3,831	+ 116
Balance on merchandise trade	- 145	+ 179	+ 324	- 676	- 616	+ 60
Other current receipts	1,724	1,785	+ 61	1,242	1,280	+ 38
Other current payments	2,796	2,953	+ 157	1,922	2,057	+ 135
Balance on non-merchandise transactions	-1,072	-1,168	- 96	- 680	- 777	- 97
Current account balance	-1,217	- 989	+ 228	-1,356	-1,393	- 37

<u>Fourth Quarter</u>	<u>United Kingdom</u>			<u>Other Countries</u>		
	1960	1961	Change	1960	1961	Change
Merchandise exports (adjusted)	241	248	+ 7	417	471	+ 54
Merchandise imports (adjusted)	144	155	+ 11	331	383	+ 52
Balance on merchandise trade	+ 97	+ 93	- 4	+ 86	+ 88	+ 2
Other current receipts	72	73	+ 1	67	72	+ 5
Other current payments	88	89	+ 1	136	132	- 4
Balance on non-merchandise transactions	- 16	- 16	-	- 69	- 60	+ 9
Current account balance	+ 81	+ 77	- 4	+ 17	+ 28	+ 11

Calendar Year

Merchandise exports (adjusted)	924	923	- 1	1,437	1,758	+ 321
Merchandise imports (adjusted)	611	588	- 23	1,219	1,298	+ 79
Balance on merchandise trade	+313	+ 335	+ 22	+ 218	+ 460	+ 242
Other current receipts	223	218	- 5	259	287	+ 28
Other current payments	365	371	+ 6	509	525	+ 16
Balance on non-merchandise transactions	-142	- 153	- 11	- 250	- 238	+ 12
Current account balance	171	182	+ 11	- 32	+ 222	+ 254

This improvement was concentrated almost wholly in trade, with increments to exports and imports being estimated at roughly \$320 million and \$80 million, respectively.

In transactions with the United States, a lowering of \$60 million in the import balance in part offset the continuing growth in the deficit on "invisibles", which was \$97 million higher in 1961. Merchandise exports expanded \$176 million, or nearly 6 per cent from \$3,039 million to \$3,215 million, while imports advanced \$116 million, or 3 per cent, from \$3,715 million in 1960 to \$3,831 million. The 14 per cent addition to net payments in service transactions with the United States from \$680 million in 1960 to \$777 million in 1961 was accounted for by a sharp increase in payments of investment income, a decline in receipts and increase in payments (each about \$30 million) for "miscellaneous current transactions", offset to the extent of about 40 per cent by a substantial increase in travel receipts, reinforced by a smaller decline in payments. Lower receipts of miscellaneous income and on government account, and larger payments of the former as well as for business services, accounted for the increased deficit on miscellaneous current transactions with the United States.

The \$11 million increase in the current account surplus with the United Kingdom in 1961 arose from a \$23 million decline in adjusted merchandise imports from \$611 million in 1960 to \$588 million, while exports were practically unchanged at \$923 million in 1961, and a small widening in the deficit on non-merchandise transactions from \$142 million to \$153 million. The travel and income accounts, government transactions, personal and institutional remittances continued to be the main sources of this imbalance.

Within the Other Countries group, the current account surplus with the rest of the Sterling Area was reduced by \$25 million while the deficit with the other OEEC countries widened by about the same amount, the changes in both cases being due to trade. The striking improvement of \$254 million in the current account balance with the whole group, therefore, originated in transactions with the remaining countries, and centred again in the export component, which rose by well over one-half. Wheat was a prominent factor in this development.

Developments in the fourth quarter

The same factors bringing about this change during the year led to a reduction in the current deficit in the fourth quarter of 1961 to \$266 million from \$304 million in the same period of 1960. The rise in the export balance from merchandise trade was partly offset by a further widening in the deficit from non-merchandise transactions to \$336 million compared with \$308 million in the fourth quarter of 1960. Growth in this latter imbalance was again mainly due to larger deficits on income account and from business services and other miscellaneous current transactions. In addition there was a considerable reduction in gold production available for export. Each of the other non-merchandise accounts including travel showed reduced deficits compared with the same quarter a year ago. On merchandise account an important factor was the rise in exports to the United States as well as the sale of wheat overseas. A part of the gain in exports to that country was offset by a rise in imports which were also at a high level.

Capital movements

Movements of capital for direct investment, portfolio stocks and bonds, and official loans and long-term investments totalled \$604 million, equivalent to 61 per cent of the current account deficit in 1961. In 1960 these movements totalled \$873 million equivalent to 72 per cent of the deficit in that year. The proportion in 1961 was smaller than in the earlier post-war years in which Canada incurred current account deficits, with the single exception of 1955, but over the period as a whole inflows in long-term forms were equivalent to all but 7 per cent of the net current account deficit.

Geographically in 1961, the movement in these forms from the United States was about 5 per cent greater than the overall movement, while the net inward movement from the United Kingdom was equivalent to about 5 per cent of the total. There were net outflows to other overseas countries equal to about 10 per cent of the net inward movement from all countries in long-term forms; contributing in important amounts to this result were trade credits. In 1960 about 78 per cent of the movement came from the United States, 10 per cent from the United Kingdom, and 12 per cent from other overseas countries.

Capital inflows taking the form of increases in outstanding net external long-term debt⁽¹⁾ of the various levels of government in Canada continued to contract, falling from \$198 million in 1960 to \$124 million in 1961. This was the smallest capital inflow to this group for a number of years, and was in sharp contrast to the inflow of \$461 million in 1959. Foreign direct and portfolio investment in Canadian concerns totalling \$637 million in 1961 was below the figure of \$722 million for 1960 and those for earlier years since 1955, but at 64 per cent it made up a larger proportion of the net capital inflow than in either 1959 or 1960.

DIRECT INVESTMENT The net movement of foreign capital to Canada for direct investment in foreign-controlled enterprises during 1961 is estimated to have totalled \$420 million. This figure was down sharply from the record level of \$645 million reached in 1960, although it may be noted that it was exceeded in only three earlier post-war years. About a quarter of the change is estimated to reflect a reduction in the net inflow for the acquisition of existing concerns and interests and for refinancing, etc. having no counterpart in current new capital formation in Canada. Industrially nearly half the decline was to the mining industry where the phasing out of some major developments coincided with the reacquisition by Canadian groups of some existing foreign-owned investments. The balance of the decline was shared by the petroleum and natural gas industry, and by manufacturing. In each case the reduction was accounted for in part by larger transfers in 1960 covering the acquisition of existing Canadian-owned concerns. Inflows to finance and real estate continued to be large with the acquisition of insurance undertakings playing a prominent part in 1961.

It has been noted before that investments in many hundreds of enterprises contribute to the direct investment totals. The net inflow from the eight largest elements fell by about 50 per cent from 1960 to 1961, accounting for 59 per cent of the net movement in the earlier year and about 48 per cent in 1961.

Although the inflows in each quarter of 1961 fell below those of the corresponding quarter of 1960, the moderation was particularly evident in the last half of the year when the inflow fell to \$160 million, the lowest level since the first half of 1952. The decline from the first half of 1961 was \$100 million.

Geographically, United Kingdom direct investment flows to Canada rose both relatively and in total over 1960, accounting in 1961 for perhaps 30 per cent of the total, compared with 18 per cent in 1960. Direct investment transfers from the United States, are estimated to have accounted for about 55 per cent of the total, in contrast to 68 per cent in 1960, a reduction of the order of \$200 million. Inflows from other overseas countries maintained their relative proportion but dropped in amount.

Preliminary estimates of the movement of capital for direct investment abroad indicate a net outflow of \$110 million, compared with \$85 million in 1960. The estimate for 1961 is the highest recorded. The largest part of the outflow was to manufacturing concerns but there were also outflows to a variety of financial, mining, and other operations. Nearly half the outflow was to overseas countries other than the United Kingdom, mainly outside Western Europe.

SECURITY TRANSACTIONS Transactions in stocks and bonds between Canada and other countries in 1961 gave rise to a net capital inflow of \$273 million, up considerably from that of \$226 million recorded for 1960. The total value of the transactions leading to this balance was \$4.1 billion. The net inward movements in 1960 and 1961 were much smaller than in the years from 1956 to 1959 when they ranged between \$610 million and \$763 million, but were larger than in all but two of the ten preceding post-war years. The total value of transactions was some \$1.5 billion higher than in 1960 and was well above the average of about \$2.9 billion from 1956 to 1960. Contributing to the turn-over in recent years in an indeterminate amount has been the development of buy-backs or purchase and resale arrangements under which essentially short-term transactions may be carried out in securities which are nominally long-term.

Foreign savings supplied a smaller part again in 1961 of the new money raised by Canadians in capital markets. Net acquisitions by non-residents of provincial, municipal, and corporate securities were equivalent to about 14 per cent of the net new supply of these securities. In 1960 the proportion had exceeded 16 per cent and in 1959 it was more than 40 per cent. The reduction in 1961 occurred despite the fact the new supply of these securities was about 25 per cent greater than in 1960. Foreign

(1) Increase in holdings by non-residents of Government of Canada, provincial and municipal bonds, less net repayments on intergovernmental loans and subscriptions in gold and foreign currencies to international financial agencies.

savings invested in provincial securities were equal to more than half of the net new supply in 1959, but fell to 9 per cent in 1960 and to 3 per cent in 1961 despite a substantial growth in borrowing in the latter year. Foreign investment in

Portfolio Security Transactions Between Canada and
Other Countries, 1961

Net Sales (+) or Purchases (-)						
by Canadians		I	II	III	IV	YEAR
<u>Canadian Securities</u>		(millions of dollars)				
Outstanding -						
Bonds	+ 31	+ 34	- 12	+ 10	+ 63	
Stocks	+ 13	+ 32	-	- 5	+ 40	
New issues	+ 90	+171	+127	+104	+492	
Retirements	- 69	- 93	- 29	-101	-292	
<u>Foreign Securities</u>						
Outstanding issues	+ 3	-	+ 2	- 10	- 5	
New issues	- 5	- 18	- 6	- 5	- 34	
Retirements	+ 2	+ 2	+ 3	+ 2	+ 9	
Total - all countries	+ 65	+128	+ 85	- 5	+273	
United States ...	+ 58	+163	+129	+ 65	+415	
United Kingdom ..	- 2	- 15	- 30	- 54	-101	
Other Countries .	+ 9	- 20	- 14	- 16	- 41	

municipals equalled 39 per cent of net new issues in 1959 and 33 per cent in 1960 but in 1961 there was no significant foreign investment in this group of securities. In the case of corporation securities, on the other hand, net acquisitions by non-residents equalled about one-third of the net new supply in 1961, compared with 14 per cent in 1960, although the proportion at that time was unusually low in relation to earlier years. Taking corporate bonds and debentures alone, the net acquisition by non-residents in 1961 of over 50 per cent was higher even than in 1956 and 1957 when very much larger amounts of capital were raised by Canadian corporations.

The overall movement of portfolio security capital to Canada came in 1961 as in 1960 entirely from the United States. Inflows from the United States amounted to \$415 million, but there were outflows of \$101 million and \$41 million to the United Kingdom and to other overseas countries respectively.

A capital inflow of \$103 million produced from trade in outstanding Canadian securities was made up of net sales to non-residents of \$63 million of bonds and debentures and of \$40 million of common and preference stocks. The total was practically double the figure for 1960. The largest changes between the two years occurred in trade in outstanding Government of Canada direct and guaranteed issues in which net sales rose from \$49 million to \$75 million and in corporate bonds and debentures where net repurchases fell from \$42 million to \$7 million. In both years substantial sales balances occurred in the first half of the year, and there were small repurchase balances in the second half.

Net Sales of Outstanding Canadian Stocks
to Non-Residents
(millions of dollars)

Quarter		Total	United States	Other Countries
1960	I Q	13	5	8
	II Q	24	22	2
	III Q	10	14	- 4
	IV Q	2	13	-11
1961	I Q	13	21	- 8
	II Q	32	45	-13
	III Q	-	22	-22
	IV Q	- 5	32	-37

A rather striking feature of transactions in Canadian securities has been the persistence of sustained sales of outstanding Canadian stocks to residents of the United States and sustained repurchases of them from the United Kingdom and other overseas countries.

Canada imported \$492 million of foreign capital from the sale to non-residents of new issues of Canadian securities in 1961. This figure was 10 per cent higher than sales in 1960, but was well below the totals for the years from 1956 to 1959. Perhaps the most striking feature of the series is the contraction in sales to non-residents of new issues of governments and municipalities, which fell from \$548 million in 1959 to \$126 million in 1961, in contrast to the sharp increases in sales to non-residents of new corporate issues which rose in the same period from \$159 million to \$366 million. Among the corporate issues placed abroad or attracting considerable non-resident

interest at the time of issue in Canada in 1961, petroleum and natural gas including ancillary facilities stood out prominently, accounting for over 40 per cent of the total. Securities of real estate investment companies, pulp and paper concerns, and financial institutions were in that order the next largest contributors to the total. It may be observed that a wide range of factors besides general interest rate and exchange differentials may influence borrowing abroad. Among them may be specific relationships existing between entrepreneurs and particular capital sources, and the absorptive capacity of the market not only in total but also in respect of a particular type of security or the securities of a particular borrower.

Although the proceeds of new issues sold to non-residents were more evenly distributed over 1961 than 1960, receipts tended again to be larger in the first half of the year. About 40 per cent of the proceeds received during the last six months of 1961 arose from arrangements completed in earlier periods.

Retirement of foreign-held Canadian securities rose in 1961 to \$292 million. This figure was some \$39 million higher than in 1960. The total included \$53 million of common and preferred stocks retired from the market through redemption, negotiated purchases, etc.; a significant part reflected principal repayments on the partial liquidation of an utility holding company. Since retirements required by the operation of sinking funds are often satisfied through the surrender of bonds acquired in the market, some repurchases of outstanding issues in effect also represent debt retirement. Rising payments for retirements are to be expected with the increasing amounts of debt of Canadians held by non-residents. The retirements of bonds and debentures in 1961 represented less than 1/25 of the debt held by non-residents.

All transactions in foreign securities led to a net capital export of \$30 million in 1961, up \$10 million from 1960. Included in the total for 1961 were net purchases of \$5 million of outstanding issues; Canadians purchased \$18 million of United States, United Kingdom, and other foreign equities, but sold \$13 million of foreign bonds and debentures, about half of them United States Government issues. Canadians also purchased \$34 million of new foreign securities. This outflow was the largest for these transactions since 1955. Contributing to the total was an offering of Canadian dollar bonds by the Commonwealth of Australia. Other purchases by Canadians included issues of borrowers in the United States, Israel and United Kingdom. Retirements of Canadian-held foreign securities in 1961 totalled \$9 million, about half the total for 1960, including investments in the United States, other countries, and international financial organizations.

A more extended review of international security movements in 1961 will be found in the December issue of "Sales and Purchases of Securities Between Canada and Other Countries". (DBS Catalogue No. 67-002).

OTHER CAPITAL MOVEMENTS Canadian Government aid abroad in 1961 took the form of official contributions or of guarantees of credit provided directly or indirectly from private sources, or of subscriptions to international financial agencies discussed later in this report. There were no loans made directly by the Government. Official contributions, which appear in the current account, totalled \$54 million.

Repayments of principal on earlier intergovernmental loans totalled \$38 million, including amounts from the United Kingdom, France, India, the Netherlands, Belgium and Ceylon. The total was some \$6 million higher than in 1960, reflecting the commencement of repayments on special wheat and flour loans extended to India and Ceylon in 1958 and 1959, and a rising capital element in the repayment from the United Kingdom. In addition to these principal repayments, there were receipts of \$31 million on account of interest in 1961; this is a part of the item in the current account covering Canada's receipts from interest and dividends.

Other Canadian aid abroad in 1961 was associated with the extension of export credit facilities through the Government-owned Export Credits Insurance Corporation, the Export Finance Corporation of Canada Limited established by the Chartered Banks of Canada, and the Canadian Wheat Board. A description of these facilities and some comment on the character of capital movements to which they give rise were provided in the last issue of this series of reports. The net capital outflows originating from these trade credits, apart from paper rediscounted with non-residents or into Canadian banking assets abroad, are a part of "other capital movements". The amount involved for 1961 as a whole was somewhat more than \$50 million. The contingent liability of the Government of Canada and its agencies is of course much larger.

Change in Canadian dollar holdings
of foreigners
(millions of dollars)

Quarter	Total	Treasury	Deposits
		Bills	etc.
1960	I Q - 2	- 8	+ 6
	II Q - 2	-10	+ 8
	III Q +45	+27	+18
	IV Q +79	+47	+32
1961	I Q - 5	+32	-37
	II Q -72	-76	+ 4
	III Q - 1	-34	+33
	IV Q +44	+18	+26

Canadian dollar holdings of foreigners fell over the first three quarters of the year, particularly in the second, but rose in the fourth quarter, reducing the capital outflow for the year as a whole to \$34 million. As the accompanying statement shows the series include holdings of Government of Canada treasury bills and also Canadian dollar deposits at banks and other depositaries.

Total non-resident-owned holdings of Canadian dollars fell from about \$600 million at the end of 1960 to about \$565 million at the end of 1961. Somewhat more than half the total at the end of 1961 was represented by holdings of residents of the United States. These movements and balances are apart from the holdings of international financial agencies which are included elsewhere in the capital account.

Holdings by non-residents of Canadian treasury bills included in the totals fell from \$120 million at the end of 1960 to \$62 million at the end of 1961. The largest change occurred in holdings of residents of the United States which fell during the year from \$93 million to \$26 million. The peak of foreign holdings was reached in April when they totalled \$163 million, falling sharply over the four succeeding months to \$43 million. (The December 1961 issue of the monthly publication, "Sales and Purchases of Securities Between Canada and Other Countries", contains a more extended description of these movements, together with comment on the factor of interest arbitrage.)

Official Holdings of
Gold and United States dollars
(millions of United States dollars)

End of		Amount	Change in Period
1961	I Q	1,935	+106
	II Q	1,985	+ 50
	III Q	1,924	- 61(1)
	IV Q	2,056	+132
	Oct.	2,111	+186
	Nov.	2,079	- 32
	Dec.	2,056	- 23

(1) Includes special transactions under arrangements related to U.K. drawing from IMF -50.

in official holdings of sterling, while the remainder of the net movement was reflected by increased holdings of gold and United States dollars, shown (in terms of United States funds) in the accompanying statement. Particularly, interest naturally attaches to the sharp increase in official holdings of gold and United States dollars which occurred in the month of October, and which appears to have involved some changing of exchange positions. The transactions were probably reversed to some extent later within the quarter.

The composition of "other capital movements" is given in the statement below. In total they gave rise to an exceptionally large net capital inflow of \$631 million over the year compared with \$243 million in 1960. A particularly sharp turnaround of \$410 million occurred between the third and fourth quarters of the year.

Among the features which stand out on an annual basis is the return of capital to Canada through reductions in private and banking holdings of short-term funds abroad. While there have been quarters in which there were net movements into Canada, there has been only one other year, 1955, in the decade since the termination of foreign exchange in Canada when private and banking Canadian holdings of foreign exchange were not increased. The capital inflow from these balance changes in 1961 amounted to \$154 million, in sharp contrast to the outflow of \$61 million which occurred in 1960. Canadian holdings in these forms were well in excess of \$1.1 billion at the end of 1960 and, taking into account changes in their exchange value, fell by slightly over \$100 million in 1961.

Transactions between Canada and international financial agencies were dominated by drawings of Canadian dollars by member countries of the International Monetary Fund. A drawing in the second quarter by the Government of Australia of the equivalent of \$175 million in United States funds in currencies held by the Fund included about \$10 million in Canadian dollars; Australia also raised \$20 million in the Canadian capital market about this time. In the third quarter the Government of the United Kingdom arranged a drawing of the equivalent of \$1,500 million in United States funds in nine currencies, including \$75 million in Canadian funds. The Fund then replenished its holdings of each of these currencies, in an amount equal to one-third of the drawings by the United Kingdom, through sales of gold. The net effect on Canada of the transactions with the United Kingdom was that Canadian liabilities to the International Monetary Fund fell by about \$52 million, and there was a decline of about the same amount in Canada's official holdings of gold and foreign exchange.

The total decline of \$60 million in Canada's short-term liabilities to international financial agencies arising from the drawings and other uses was partially offset by Canadian quota or subscription payments of \$9 million to the International Monetary Fund, representing adjustment of the Fund's Canadian dollar holdings arising from exchange rate changes, and a capital subscription payment of \$8 million to the International Development Association.

The net capital outflow represented by increased official holdings of gold and foreign exchange in 1961 was \$229 million. Since a balance of about \$52 million was provided to the United Kingdom against Canadian dollars drawn from the International Monetary Fund, a reduction represented in this item of the balance of payments capital inflow, the net outflow apart from this special transaction was \$281 million. The overall change was the largest annual one since the withdrawal of fixed exchange rates in 1951, but in four of the five earlier post-war years the net annual change was substantially larger. The increased use of the Exchange Fund Account in 1961 is consistent with the announced intentions of the Minister of Finance covered in the report in this series for the second quarter. There were outflows of \$105 million, \$51 million, and \$135 million in the first, second and fourth quarters, while in the third quarter official holdings were reduced, largely as the result of the special transaction with the United Kingdom, giving rise to a capital inflow of \$62 million. Over the year there was a small net increase of \$2 million

Reference has already been made to the elements in this group of movements representing Canadian aid abroad through the extension of export credit facilities.

Borrowings from non-residents by finance companies (apart from transactions in long-term securities) together with non-resident holdings of Canadian commercial paper accounted for a net capital inflow of \$108 million in 1961. A very substantial part of this inflow occurred in the first quarter.

Regular readers of these reports will be aware of the wide variety of items embraced within the group of "all other transactions including changes in loans and accounts receivable and payable" totalling some \$446 million in 1961. When all the source data for 1961 have become available it may be that some items currently grouped here may be transferred to other categories in the balance of payments, but there will remain a wide range of accounts receivable and payable, intercorporate short-term items, bank loans, etc., quite apart from the real, financial, or documentary floats inherent in the compilation of estimates of this sort. For example, at the end of 1961 it is estimated that cheque floats in connection with a single transaction contributed more than \$30 million to this item in the statement. And there remain the possibilities of errors and omissions in some other items; the wide variety of channels open to Canadians for international security transactions make it difficult to ensure that all movements of capital are recorded, although coverage of the series is extended wherever possible to include new intermediaries or participants. As in the past changes in short-term receivables and payables of various sorts are believed to be the area of capital movements least completely covered.

Composition of "Other Capital Movements"
(millions of dollars)

	1960	1961	1960	1961			
	Year	Year	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Transactions with all countries							
International Financial Agencies(1)							
Canadian dollar subscriptions	- 10	- 17	- 6	-	- 9	-	- 8
Short-term Canadian dollar holdings	5	- 43	-	2	-	- 52	7
Other long-term capital transactions	58	- 17	15	- 1	- 27	- 1	12
Bank balances and other short-term funds abroad (excluding official reserves)	- 61	154	73	128	54	-140	112
Borrowings from non-residents by finance companies, and non-resident holdings of commercial paper (1961 only)	65	108	54	71	21	- 1	17
All other transactions including changes in loans and accounts receivable and payable(2)	186	446	55	105	157	54	130
TOTAL (Item D 17)	243	631	191	305	196	-109	270

(1) International Bank for Reconstruction and Development, International Monetary Fund, and International Development Association.

(2) Includes also balancing item representing difference between direct measurements of current and capital accounts.

NOTES: The figures in this statement are based on incomplete data, and make use in some cases of statistics compiled in other countries. The items are therefore subject to greater possible error than others in the balance of payments statement.

A minus sign indicates an outflow of capital from Canada.

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1961 are preliminary and

		1959	1960		
		IV	I	II	III
A	Current Receipts				
1	Merchandise exports (adjusted)	1,449	1,283	1,323	1,400
3	Gold production available for export	37	44	35	42
4	Travel expenditures	61	36	91	221
5	Interest and dividends	69	36	40	36
6	Freight and shipping	110	102	115	118
7	Inheritances and immigrants' funds	24	18	29	31
11	All other current receipts	97	100	107	111
12	Total Current Receipts	1,847	1,619	1,740	1,959
B	Current Payments				
1	Merchandise imports (adjusted)	1,423	1,327	1,510	1,318
4	Travel expenditures	121	119	168	213
5	Interest and dividends	222	149	164	161
6	Freight and shipping	144	114	137	141
7	Inheritances and emigrants' funds	48	38	43	50
9	Official contributions	19	10	10	16
11	All other current payments	173	183	178	182
12	Total Current Payments	2,150	1,940	2,210	2,081
	Balance on Merchandise Trade	+ 26	- 44	- 187	+ 82
	Balance on Other Transactions, excluding B 9	- 310	- 267	- 273	- 188
	Official Contributions	- 19	- 10	- 10	- 16
C	Current Account Balance	- 303	- 321	- 470	- 122
D	Capital Account				
	Direct Investment				
1	Direct investment in Canada	+ 183	+ 196	+ 144	+ 168
2	Direct investment abroad	- 18	- 15	- 25	- 29
	Canadian Securities				
3a	Trade in outstanding bonds and debentures	+ 11	+ 19	+ 15	- 19
3b	Trade in outstanding common and preference stocks	+ 19	+ 13	+ 24	+ 10
4	New issues	+ 197	+ 209	+ 146	+ 52
5	Retirements	- 71	- 50	- 78	- 32
	Foreign Securities				
6	Trade in outstanding issues	- 8	+ 7	- 5	+ 2
7	New issues	- 7	- 2	- 3	- 2
8	Retirements	+ 4	+ 6	+ 3	+ 7
	Loans by Government of Canada				
9	Drawings	-	-	-	-
10,11	Repayments	+ 25	-	+ 7	-
13	Subscriptions in gold and U.S. dollars to international financial agencies	- 59	-	-	- 1
14	Change in Canadian dollar holdings of foreigners	- 44	- 2	- 2	+ 45
16	Change in official holdings of gold and foreign exchange (increase, minus)	+ 67	+ 11	+ 82	- 40
17	Other capital movements	+ 4	- 71	+ 162	- 39
E	Net Capital Movement	+ 303	+ 321	+ 470	+ 122

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports on B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance trans- B 11) actions, and business services.

BALANCE OF INTERNATIONAL PAYMENTS

data for 1960 are subject to revision.

1960		1 9 6 1				Annual Totals				
IV	I	II	III	IV	1958	1959	1960	1961		
(millions of dollars)										
1,394	1,266	1,447	1,559	1,624	4,887	5,150	5,400	5,896	A	
41	41	42	41	34	160	148	162	158	1	
72	38	101	254	80	349	391	420	473	3	
66	35	56	39	66	168	182	178	196	4	
107	99	116	128	124	401	420	442	467	5	
24	19	28	31	25	97	109	102	103	6	
102	99	99	96	94	375	392	420	388	7	
									11	
1,806	1,597	1,889	2,148	2,047	6,437	6,792	7,124	7,681	12	
1,390	1,263	1,478	1,422	1,554	5,066	5,572	5,545	5,717	B	
127	126	173	214	120	542	598	627	633	1	
195	204	173	173	221	612	671	669	771	4	
141	114	138	149	153	460	525	533	554	5	
50	40	46	49	48	145	165	181	183	6	
24	12	8	14	20	53	72	60	54	7	
183	181	187	193	197	690	693	726	758	9	
									11	
2,110	1,940	2,203	2,214	2,313	7,568	8,296	8,341	8,670	12	
+ 4	+ 3	- 31	+ 137	+ 70	- 179	- 422	- 145	+ 179		
- 284	- 334	- 275	- 189	- 316	- 899	-1,010	-1,012	-1,114		
- 24	- 12	- 8	- 14	- 20	- 53	- 72	- 60	- 54		
- 304	- 343	- 314	- 66	- 266	-1,131	-1,504	-1,217	- 989	C	
									D	
+ 137	+ 120	+ 140	+ 75	+ 85	+ 420	+ 550	+ 645	+ 420	1	
- 16	- 40	- 35	- 15	- 20	- 48	- 80	- 85	- 110	2	
- 12	+ 31	+ 34	- 12	+ 10	-	+ 91	+ 3	+ 63	3a	
+ 2	+ 13	+ 32	-	- 5	+ 88	+ 110	+ 49	+ 40	3b	
+ 40	+ 90	+ 171	+ 127	+ 104	+ 677	+ 707	+ 447	+ 492	4	
- 93	- 69	- 93	- 29	- 101	- 158	- 258	- 253	- 292	5	
- 24	+ 3	-	+ 2	- 10	+ 13	- 32	- 20	- 5	6	
- 11	- 5	- 18	- 6	- 5	- 17	- 13	- 18	- 34	7	
+ 2	+ 2	+ 2	+ 3	+ 2	+ 7	+ 12	+ 18	+ 9	8	
-	-	-	-	-	- 34	- 1	-	-	9	
+ 25	+ 3	+ 8	-	+ 27	+ 64	+ 34	+ 32	+ 38	10,11	
- 2	-	-	-	-	-	- 59	- 3	-	13	
+ 79	- 5	- 72	- 1	+ 44	+ 106	+ 13	+ 120	- 34	14	
- 14	- 105	- 51	+ 62	- 135	- 109	+ 70	+ 39	- 229	16	
+ 191	+ 305	+ 196	- 140	+ 270	+ 122	+ 360	+ 243	+ 631	17	
+ 304	+ 343	+ 314	+ 66	+ 266	+1,131	+1,504	+1,217	+ 989	E	

NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.

Exchange rate

The value of the Canadian dollar on the international exchange markets fell sharply during 1961.

United States Dollar in Canada
(Canadian cents)

<u>Period</u>		<u>High</u>	<u>Low</u>	<u>Close</u>	<u>Noon Average</u>
1961	I Q	99.69	98.25	98.91	98.99
	II Q	103.53	98.59	103.50	99.42
	III Q	104.00	103.00	103.00	103.21
	Oct.	103.44	103.00	103.37	103.03
	Nov.	104.34	103.25	104.28	103.57
	Dec.	104.37	104.03	104.34	104.27

The last quotation for the United States dollar reported on transactions between banks in the Canadian exchange market in 1960 was 99.66 cents. At the end of 1961 it was 104.34 cents. The largest part of the change occurred between June 12 and June 23 when the noon average rose by more than four cents, and there were further rises toward the year-end. The trading ranges of 1.44 cents, 4.94 cents, 1 cent and 1.38 cents in the successive quarters of 1961 compared with 0.87 cents, 3.44 cents, 1.69 cents and 2.59 cents over the corresponding quarters of 1960.

The Canadian Balance of International Payments and International Investment Position

The annual DBS report, "The Canadian Balance of International Payments 1961 and International Investment Position", (Catalogue No. 67-201) will cover Canada's international transactions in 1961, including movements of direct investment and other capital not reviewed in this report, as well as recent estimates of foreign investment in Canada and of Canadian investment abroad.

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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FIRST QUARTER 1962

Canada's current account deficit in goods and services with other countries was higher in the first quarter of 1962 than in the same period last year, being \$363 million in the recent quarter compared with \$338 million last year.

On capital account, there was a decrease in official holdings of gold and foreign exchange of \$364 million in terms of Canadian currency in the first quarter. Capital movements, apart from this change, continued to follow a variety of forms and directions, but in the period as a whole, these movements were mainly offsetting. Movements in long term form were also close to balance, as outflows arising from security transactions were close to net inflows connected with direct investment and other long term forms in the quarter. A summary of leading elements in Canada's international accounts follows.

	<u>1961</u>		<u>1962</u>		
	I Q	IV Q	I Q		
	(millions of dollars)				
Merchandise trade balance	+ 6	+ 60	- 14		Again the chief source of the current deficit was a growing excess of payments over receipts originating in non-merchandise transactions.
Deficit on non-merchandise transactions	-344	-332	-349		Contributing to the rise in this part of the current deficit to \$349 million from \$344 million, were larger deficits in 1962 from travel and business and other services, which more than offset some contraction in the deficit on income account from the wide imbalance in the first quarter of 1961 when there was an
Current account deficit	-338	-272	-363		
Capital movements before change in official holdings	+443	+407	- 1		
Change in official holdings of gold and foreign exchange(1)	-105	-135	+364		

(1) Increase (-)

unusual concentration of dividend transfers from Canadian subsidiaries to foreign parent companies. When allowance is made for seasonal factors this deficit from non-merchandise transactions was of the general order of \$1 1/4 billion at an annual rate.

Small balance on merchandise trade

On merchandise account there was once more only a very small trade balance when statistics are adjusted for balance of payments purposes, although the change from a slight export balance of \$6 million to an import balance of \$14 million also contributed to the larger deficit. There were sharply higher levels of merchandise trade in both directions than in 1961, but the rate of increase in imports exceeded the rise in exports.

Prepared in the Balance of Payments Section
National Accounts and Balance of Payments Division

2206-502-32

In the first quarter of 1962 there was an increase in Canada's merchandise exports of about 11 per cent from the level of the same period in 1961. This was also higher than any earlier first quarter. Divergent trends led to this result in 1962. While exports to the United States rose sharply by more than one-quarter, the value of shipments to overseas countries fell by some 8 per cent. These declines were distributed among shipments to various destinations including the United Kingdom, rest of the Commonwealth, and countries in Western Europe. In contrast exports to Communist China were substantially higher than in the first quarter of last year and exports to Japan slightly higher.

An important element leading to a general rise in values was the change in the foreign exchange rate for the Canadian dollar. Among other significant elements in the rise in exports to the United States was an unusual concentration of deliveries of aircraft in the first quarter. Higher shipments of some metals and forest products and petroleum and natural gas also contributed to the gain in sales to the United States. The value of wheat shipments overseas was again higher than in the previous year although considerably less than in subsequent quarters of last year. On the other hand there were lower levels of some industrial materials sold in overseas markets including the United Kingdom and other O.E.C.D. countries.

The value of merchandise imports rose more than exports, being some 12 per cent more than in the first quarter of 1961. About one-third of this increase was due to higher levels of import prices, reflecting chiefly the reduced foreign exchange value of the Canadian dollar. The chief gain occurred in imports from the United States, which rose more than imports from overseas.

Increases which have occurred in imports in recent quarters have been widely distributed among commodities, with expanded purchases being particularly evident in many industrial materials and components used by Canadian industry. Imports of machinery have also been higher, as have some groups of consumer goods like food, and feed, although there have been significant declines in some, like automobiles. While details are not yet available, indications are that much of this pattern may have persisted in the first quarter of 1962. Some gains in business inventories may also have played some part in the recent expansion in imports.

Deficit from services and non-merchandise items

While the changes in the first quarter in the balance on merchandise trade with Canada's principal trading partners were larger, the imbalance on "invisibles" persisted in being the core of the current account deficit. Notwithstanding a pronounced decline in the deficit in the income account together with reduced payments of official contributions and a slightly higher value of gold production available for export, enlarged deficits on other non-merchandise transactions (with payments outpacing receipts) yielded a net rise of \$5 million in the deficit on all "invisible" items from \$344 million to \$349 million in the first three months of 1962. The individual deficits on the income and travel accounts and miscellaneous current transactions added up to the \$349 million total, as the balances on other items matched together.

Net payments of interest and dividends amounting to \$147 million were higher than in any first quarter before 1961. They represented 42 per cent of the non-merchandise deficit in the March quarter of 1962, which proportion was in line with that for the initial quarters of 1958 and 1959. The larger share of 49 per cent for the same period of 1961 was mainly due to lagging from the preceding fourth quarter of dividend payments by a number of Canadian subsidiaries to parents abroad, a temporary deviation from the usual pattern of remittances. The receipts of interest and dividends were down from \$36 million to \$33 million, with each of the components declining slightly. Interest payments, on the other hand, rose from \$61 million to \$67 million, with increased holdings accounting for about two-thirds of the gain and the decline in the foreign exchange rate of the Canadian dollar accounting for the rest.

At \$113 million, dividend payments in the three months of 1962, while lower than the total for the same quarter for 1961 for reasons referred to above, were higher than in any preceding first quarter. The drop in the current quarter under review was moderated in part by higher net profits of foreign branches in Canada and larger dividend payments on portfolio investment.

With a gain in receipts on travel account from \$38 million to \$43 million and a rise in expenditures abroad from \$129 million to \$141 million, net travel payments of \$98 million represented 28 per cent of the deficit on "invisibles", which was at about the same level for other recent years. Most of the gain in expenditures abroad originated in a sharp rise in travel overseas by Canadians. Net payments for freight and shipping services went up from \$14 million to \$17 million, following increases in receipts from \$102 million to \$109 million and in payments from \$116 million to \$126 million. The deficit on migrants' funds and inheritances estimated at \$19 million was slightly higher in the opening quarter of 1962, with receipts having risen from \$19 million to \$20 million and payments from \$35 million to \$39 million. The slight advance in the value of gold production available for export from \$41 million to \$42 million was due to the change in the foreign exchange rate for the Canadian dollar.

<u>Income Account: Payments</u> (millions of dollars)				
Period	Total	Interest	Dividends	
1960	653	239	414	
1961	770	259	511	
1960 I Q	145	54	91	
II Q	161	65	96	
III Q	157	53	104	
IV Q	190	67	123	
1961 I Q	204	61	143	
II Q	174	68	106	
III Q	170	58	112	
IV Q	222	72	150	
1962 I Q	180	67	113	

For this group slipped down from \$103 million to \$100 million on account of offsetting factors such as lower expenditures for United States defence facilities in Canada and receipts of interest on export credit financing and of special compensation for contract cancellation. Such factors as the continuing rise in production and the higher Canadian dollar cost of services contributed to a substantial growth in net payments for business services.

Transactions by Areas

For about a year now comparisons of corresponding quarters have tended to show improvements in the current account balances with the United States, the United Kingdom and Other Countries. This deterioration was extended in the first quarter of 1962 with the United States, but the surpluses were maintained in transactions with the overseas countries.

<u>Quarterly Current Account Balances</u> (millions of dollars)					
	I Q	II Q	III Q	IV Q	
<u>United States</u>					
1960	-343	-449	-165	-404	
1961	-431	-434	-150	-371	
1962	-373				
<u>United Kingdom</u>					
1960	+28	+12	+48	+78	
1961	+37	+24	+42	+79	
1962	+7				
<u>Other Countries</u>					
1960	-11	-40	-10	+13	
1961	+56	+95	+51	+20	
1962	+3				

As changes in the deficit in non-merchandise transactions with each of the three areas were slight, variations in the trade balances paralleled those of the current account balances. The deficit on merchandise trade with the United States narrowed \$57 million, or nearly 28 per cent, from \$206 million to \$149 million, while the trade surplus with the United Kingdom declined \$28 million, or 32 per cent, from \$88 million to \$60 million, and that with Other Countries fell \$49 million, or 39 1/2 per cent, from \$124 million to \$75 million. Within this group of countries, the trade surplus in the first quarter of 1961 with the Rest of the Sterling Area (\$35 million) and with the other OECD countries (\$68 million) contracted by about one-half and two-thirds, respectively, one year later, while the surplus of \$21 million with the remaining countries nearly doubled.

With the quickening of business activity in the United States, merchandise exports to the country expanded \$184 million, or 27 per cent, from \$677 million to \$861 million in the first quarter of 1962. This substantial growth in shipments was distributed among many groups of commodities, comprising wood, wood products and paper; iron, non-ferrous metals and products; petroleum and natural gas; and miscellaneous commodities, which

included a number of Canadian-designed air transports. At the same time, imports from the United States increased \$127 million, or 14 1/2 per cent, from \$883 million to \$1,010 million. The deficit on non-merchandise transactions was almost identical at \$225 million and \$224 million, respectively, in the March quarters of 1961 and 1962. The unchanged totals, however, included a decline in dividend payments of about \$25 million, offset by lower receipts on government account and larger business service payments.

Summary of Current Transactions with the
United States, United Kingdom and Other Countries,
First Quarter 1961 and 1962, and Change between the Periods
(millions of dollars)

	All Countries			United States		
	1961	1962	Change	1961	1962	Change
Merchandise exports (adjusted)	1,266	1,404	+ 138	677	861	+ 184
Merchandise imports (adjusted)	1,260	1,418	+ 158	883	1,010	+ 127
Balance on merchandise trade	+ 6	- 14	- 20	- 206	- 149	+ 57
Other current receipts	339	347	+ 8	240	250	+ 10
Other current payments	683	696	+ 13	465	474	+ 9
Balance on non-merchandise transactions	- 344	- 349	- 5	- 225	- 224	+ 1
Current account balance	- 338	- 363	- 25	- 431	- 373	+ 58

	United Kingdom			Other Countries		
	1961	1962	Change	1961	1962	Change
Merchandise exports (adjusted)	223	195	- 28	366	348	- 18
Merchandise imports (adjusted)	135	135	-	242	273	+ 31
Balance on merchandise trade	+ 88	+ 60	- 28	+ 124	+ 75	- 49
Other current receipts	40	41	+ 1	59	56	- 3
Other current payments	91	94	+ 3	127	128	+ 1
Balance on non-merchandise transactions	- 51	- 53	- 2	- 68	- 72	- 4
Current account balance	+ 37	+ 7	- 30	+ 56	+ 3	- 53

In transactions with the United Kingdom, the current account surplus was reduced from \$37 million to \$7 million as a result of a combination of developments. Merchandise exports declined \$28 million to \$195 million in the three months of 1962, imports were steady at \$135 million, and the non-merchandise deficit increased slightly to \$53 million. While exports of some other groups of commodities were also lower, the bulk of the reduction in exports appeared to have been concentrated in wood, wood products and paper; iron and products; and non-ferrous metals and products. Among the "invisible" items, dividend payments were smaller while expenditures by Canadian travellers in the United Kingdom were higher.

Increases were indicated in merchandise imports from the Rest of the Sterling Area, the other OECD, and the remaining countries, while merchandise exports declined to the first two areas but increased to the other countries. The degree of change in exports and imports was greater for the other OECD countries. Exports of non-ferrous metals and products to the whole group of these countries declined sharply, while shipments of wheat to Communist China were substantially higher in the first quarter of 1962.

Capital Movements

The summary statement on this page illustrates clearly the principal features of Canada's balance of payments in the first quarter of the current year - the persistence of a substantial deficit in the current account, and the virtual cessation of any net capital inflow on balance in either long or short term forms apart from changes in official holdings of gold and foreign exchange.

	<u>1961</u>		<u>1962</u>	
	I Q	IV Q	I Q	
	(millions of dollars)			
Balance on goods and services	-338	-272	-363	As may be inferred from the monthly changes in these holdings through the quarter, there were at times substantial changes in private exchange positions but over the period as a whole these largely cancelled out, leaving the underlying factor of the deficit from transactions in goods and services.
Capital movements in long term forms	+147	+ 99	+ 8	
Capital movements in short term forms(1)	+296	+308	- 9	
Change in official holdings of gold and foreign exchange(2)	-105	-135	+364	
(1) Excluding change in official holdings of gold and foreign exchange				
(2) Increase (-)				

DIRECT INVESTMENT The net inflow of foreign capital for direct investment in foreign-controlled enterprises in Canada continued at about the general level of the last half of 1961. The estimate of \$75 million for the first quarter of the current year compares with \$75 million in the third quarter of 1961 and \$85 million in the fourth. These rates of inflow were below those prevailing since the first half of 1952.

Although the net movement has been relatively unchanged, its character has varied substantially. Setting apart transactions covering the acquisition of existing concerns or interests or refinancing, etc. having no counterpart in current new capital formation in Canada, other direct investment inflows fell in the first quarter to about half the level of the fourth quarter of 1961.

Industrially net inflows to the petroleum, natural gas, and mining industries represented a relatively smaller proportion of the total than recently, accounting for perhaps half. Inflows to manufacturing were larger than for some quarters past, both absolutely and relatively, but the increase reflected entirely special factors such as takeovers and refinancing.

Geographically the United States assumed greater importance as a source of foreign direct investment capital than was the case through 1961, accounting for about seven tenths of the net movement. Somewhat less than half of the remainder came from the United Kingdom.

The net outflow of Canadian capital for direct investment abroad is tentatively estimated at \$5 million. This compares with \$20 million in the fourth quarter. The movements were widely spread by industry and by destination.

SECURITY TRANSACTIONS During the first quarter of 1962 all transactions between Canada and other countries in portfolio securities led to a net capital outflow of \$66 million. This followed an outflow of \$5 million in the fourth quarter of 1961, and compared with an inflow of \$65 million in the first quarter of that year.

Repurchases of outstanding Canadian bonds, debentures, etc. and of stocks both occurred on a modest scale during the quarter. Net sales of outstanding Canadian equities to residents of the United States continued but at a lower rate than in recent quarters, as did net repurchases from overseas countries. The repurchase balance from trade in outstanding Canadian bonds, debentures, etc. reflected modest sales to overseas countries and repurchases from the United States, with on balance, small sales of government issues and repurchases of corporate issues. The balance from trade in all outstanding Canadian issues moved from net sales of \$10 million in January to net repurchases of \$13 million in March.

Receipts from the sale to non-residents of new issues of Canadian securities fell sharply, amounting to only \$32 million, mainly in the form of participation by non-residents in new issues marketed in Canada. Retirements of non-resident-owned Canadian securities continued to be large at \$1 million, mainly arising from contractual maturities.

Net Sales of Outstanding Canadian Stocks
to Non-residents
(millions of dollars)

Quarter		Total	United States	Other Countries
1960	I Q	13	5	8
	II Q	24	22	2
	III Q	10	14	- 4
	IV Q	2	13	-11
1961	I Q	13	21	- 8
	II Q	32	45	-13
	III Q	-	22	-22
	IV Q	- 5	32	-37
1962	I Q	- 7	15	-22

Net acquisitions of foreign securities by residents of Canada totalled \$27 million in the quarter. An important factor in the total were purchases of stocks of United States and overseas countries which were exceptionally large during March when new investment intermediaries became active.

The gross turnover of securities between Canada and other countries during the quarter was over \$1,250 million which, however, included some transactions in medium or long term securities under purchase and resale agreements. This was of the same order as in the fourth quarter of 1961 when new issues and retirements were a more important factor. The figures do not include sales to non-residents of securities of an original term of one year or less, including treasury bills and commercial and finance paper; these are included in later items of the capital account.

OTHER CAPITAL MOVEMENTS

Intergovernmental loans gave rise to a capital inflow of \$3 million as India made a further repayment of principal under a special loan for the purchase of wheat and flour. Other Canadian aid abroad has been covered in the items "Official Contributions" and in "Other Capital Movements" which includes credits extended through official and private agencies under Government guarantee.

Change in Canadian dollar holdings
of foreigners
(millions of dollars)

Quarter		Total	Treasury Bills	Deposits etc.
1960	I Q	- 2	- 8	+ 6
	II Q	- 2	-10	+ 8
	III Q	+45	+27	+18
	IV Q	+79	+47	+32
1961	I Q	- 5	+32	-37
	II Q	-72	-76	+ 4
	III Q	- 1	-34	+33
	IV Q	+44	+18	+26
1962	I Q	-37	+11	-48

Canadian dollar holdings of non-residents showed a sharp decline in the first quarter, substantially reversing the capital inflow in this form in the fourth quarter. Non-residents increased their holdings of Canadian treasury bills but reduced their deposits and similar holdings by a greater amount. The United Kingdom and other European countries accounted for about nine-tenths of the outflow.

The capital inflow of \$364 million arising from reductions in official holdings of gold and foreign exchange has already been referred to. Official holdings of gold and United States dollars were reduced, in terms of United States currency, by \$347 million, having a Canadian dollar value of \$363 million. Official holdings of sterling are generally limited to working balances, and the further inflow of about \$1 million reflected a minor change in them.

Official Holdings of
Gold and United States dollars
(millions of United States dollars)

End of		Amount	Change in Period
1961	I Q	1,935	+106
	II Q	1,985	+ 50
	III Q	1,924	- 61
	IV Q	2,056	+132
1962	I Q	1,709	-347
1962	Jan	1,922	-134
	Feb	1,747	-175
	Mar	1,709	- 38

One type of capital movement that analysts may wish to relate directly to the change in official holdings of gold and foreign exchange is the change in Canada's net International Monetary Fund position, a measure of the resources which Canada has provided to that institution. Expressed in United States funds, for comparability with the series covering official holdings of gold and United States dollars, this position fell by \$1 million in the first quarter of 1961, rose by \$10 million and \$50 million in the second and third quarter respectively (reflecting IMF transactions with Australia and with the United Kingdom), and fell by \$10 million in March of 1962 as Australia repaid its drawing of Canadian dollars from the Fund. The effect of this special financing transaction was to decrease the reduction in official holdings of gold and United States dollars which would otherwise have been recorded in March.

Composition of "Other Capital Movements"
(millions of dollars)

	1960 Year	1961 Year	1961				1962 First Quarter
			First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
Transactions with all countries							
International Financial Agencies(1)							
Canadian dollar subscriptions	- 10	- 17	-	- 9	-	- 8	- 22
Short-term Canadian dollar holdings	5	- 43	2	-	- 52	7	33
Other long-term capital transactions	58	- 17	- 1	- 27	- 1	12	21
Bank balances and other short-term funds abroad (excluding official reserves)	- 61	154	128	54	-140	112	48
Borrowings from non-residents by finance companies, and non-resident holdings of commercial paper (1961) only	65	108	71	21	- 1	17	28
All other transactions including changes in loans and accounts receivable and payable(2)	212	439	100	158	45	136	- 59
TOTAL (Item D 17)	269	624	300	197	-149	276	49

(1) International Bank for Reconstruction and Development, International Monetary Fund, and International Development Association.

(2) Includes also balancing item representing difference between direct measurements of current and capital accounts.

NOTES: The figures in this statement are based on incomplete data, and make use in some cases of statistics compiled in other countries. The items are therefore subject to greater possible error than others in the balance of payments statement.

A minus sign indicates an outflow of capital from Canada.

The composition of the final category found in statements of the Canadian balance of payments, "Other capital movements", is shown on this page. It reflects, in Canadian dollar terms, the transactions affecting Canada's net IMF position discussed in the preceding paragraph, as well as Canadian dollar quota payments and subscriptions to the international financial agencies. At times these have been occasioned by changes in capital structure, and at times they have arisen from variations in the exchange value of the Canadian dollar necessitating adjustment payments to maintain the gold value of the capital.

Other long-term capital transactions leading to a net capital import of \$21 million reflected mainly net Canadian borrowing in the form of bank and other loans. Private and banking holdings of foreign exchange of Canadians, apart from official holdings, were reduced by an inflow of \$48 million; this is a relatively small change in relation to the holdings themselves which exceeded \$1 billion at the end of the period. Borrowings from non-residents by finance companies and non-resident holdings of commercial paper together produced about \$28 million of capital in the quarter.

While each of these groups of transactions led to inflows, the category "all other transactions including changes in loans and accounts receivable and payable" showed an outflow for the first time since the first quarter of 1960 (when, however, the circumstances were quite different as the capital inflow in long-term forms at that time exceeded the current account deficit). The item includes in addition to commercial and financial balances some extension of short-term credits under guarantee. A substantial cheque float arising from capital transactions contributed to the inflow recorded in the fourth quarter of 1961 and the outflow in the succeeding quarter. As in the case of private and banking holdings of foreign exchange by Canadians, the changes in short-term receivables and payables in the first quarter were only marginal in relation to the amounts outstanding.

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1961-62 are preliminary and

		1960			
		I	II	III	IV
A	Current Receipts				
1	Merchandise exports (adjusted)	1,281	1,321	1,398	1,392
3	Gold production available for export	44	35	42	41
4	Travel expenditures	36	91	221	72
5	Interest and dividends	34	39	35	65
6	Freight and shipping	102	115	118	107
7	Inheritances and immigrants' funds	18	29	31	24
11	All other current receipts	100	107	111	101
12	Total Current Receipts	1,615	1,737	1,956	1,802
B	Current Payments				
1	Merchandise imports (adjusted)	1,324	1,508	1,316	1,392
4	Travel expenditures	119	168	213	127
5	Interest and dividends	145	161	157	190
6	Freight and shipping	114	137	141	141
7	Inheritances and emigrants' funds	38	43	50	50
9	Official contributions	10	10	17	24
11	All other current payments	191	187	189	191
12	Total Current Payments	1,941	2,214	2,083	2,115
	Balance on Merchandise Trade	- 43	- 187	+ 82	-
	Balance on Other Transactions, excluding B 9	- 273	- 280	- 192	- 289
	Official Contributions	- 10	- 10	- 17	- 24
C	Current Account Balance	- 326	- 477	- 127	- 313
D	Capital Account				
	Direct Investment				
1	Direct investment in Canada	+ 196	+ 144	+ 168	+ 137
2	Direct investment abroad	- 15	- 25	- 29	- 16
	Canadian Securities				
3a	Trade in outstanding bonds and debentures	+ 19	+ 15	- 19	- 12
3b	Trade in outstanding common and preference stocks	+ 13	+ 24	+ 10	+ 2
4	New issues	+ 209	+ 146	+ 52	+ 40
5	Retirements	- 50	- 78	- 32	- 93
	Foreign Securities				
6	Trade in outstanding issues	+ 7	- 5	+ 2	- 24
7	New issues	- 2	- 3	- 2	- 11
8	Retirements	+ 6	+ 3	+ 7	+ 2
	Loans by Government of Canada				
9	Drawings	-	-	-	-
10,11	Repayments	-	+ 7	-	+ 25
13	Subscriptions in gold and U.S. dollars to international financial agencies	-	-	- 1	- 2
14	Change in Canadian dollar holdings of foreigners	- 2	- 2	+ 45	+ 79
16	Change in official holdings of gold and foreign exchange (increase, minus)	+ 11	+ 82	- 40	- 14
17	Other capital movements	- 66	+ 169	- 34	+ 200
E	Net Capital Movement	+ 326	+ 477	+ 127	+ 313

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports on B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance trans-
B 11) actions, and business services.

BALANCE OF INTERNATIONAL PAYMENTS

data for 1960 are subject to revision.

1961				1962		Annual Totals		Four quarters ended Mar. 31/62	
I	II	III	IV	I	1959	1960	1961		
(millions of dollars)									
1,266	1,447	1,557	1,619	1,404	5,150	5,392	5,889	6,027	A 1
41	42	41	38	42	148	162	162	163	3
38	101	254	80	43	391	420	473	478	4
36	59	40	74	33	182	173	209	206	5
102	120	135	129	109	420	442	486	493	6
19	28	31	25	20	109	102	103	104	7
103	103	99	98	100	392	419	403	400	11
1,605	1,900	2,157	2,063	1,751	6,792	7,110	725	7,871	12
1,260	1,478	1,419	1,559	1,418	5,572	5,540	5,716	5,874	B 1
129	170	214	120	141	598	627	633	645	4
204	174	170	222	180	671	653	770	746	5
116	142	151	159	126	525	533	568	578	6
35	43	49	47	39	165	181	174	178	7
13	8	15	20	6	72	61	56	49	9
186	200	196	208	204	693	758	790	808	11
1,943	2,215	2,214	2,335	2,114	8,296	8,353	8,707	8,878	12
+ 6	- 31	+ 138	+ 60	- 14	- 422	- 148	+ 173	+ 153	
- 331	- 276	- 180	- 312	- 343	-1,010	-1,034	-1,099	-1,111	
- 13	- 8	- 15	- 20	- 6	- 72	- 61	- 56	- 49	
- 338	- 315	- 57	- 272	- 363	-1,504	-1,243	- 982	-1,007	C
+ 120	+ 140	+ 75	+ 85	+ 75	+ 550	+ 645	+ 420	+ 375	D 1
- 40	- 35	- 15	- 20	- 25	- 80	- 85	- 110	- 95	2
+ 31	+ 34	- 12	+ 10	- 3	+ 91	+ 3	+ 63	+ 29	3a
+ 13	+ 32	-	- 5	- 7	+ 110	+ 49	+ 40	+ 20	3b
+ 90	+ 171	+ 127	+ 104	+ 32	+ 707	+ 447	+ 492	+ 434	4
- 69	- 93	- 29	- 101	- 61	- 258	- 253	- 292	- 284	5
+ 3	-	+ 2	- 10	- 31	- 32	- 20	- 5	- 39	6
- 5	- 18	- 6	- 5	- 1	- 13	- 18	- 34	- 30	7
+ 2	+ 2	+ 3	+ 2	+ 5	+ 12	+ 18	+ 9	+ 12	8
-	-	-	-	-	- 1	-	-	-	9
+ 3	+ 8	-	+ 27	+ 3	+ 34	+ 32	+ 38	+ 38	10,11
-	-	-	-	-	- 59	- 3	-	-	13
- 5	- 72	- 1	+ 44	- 37	+ 13	+ 120	- 34	- 66	14
- 105	- 51	+ 62	- 135	+ 364	+ 70	+ 39	- 229	+ 240	16
+ 300	+ 197	- 149	+ 276	+ 49	+ 360	+ 269	+ 624	+ 373	17
+ 338	+ 315	+ 57	+ 272	+ 363	+1,504	+1,243	+ 982	+1,007	E

NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

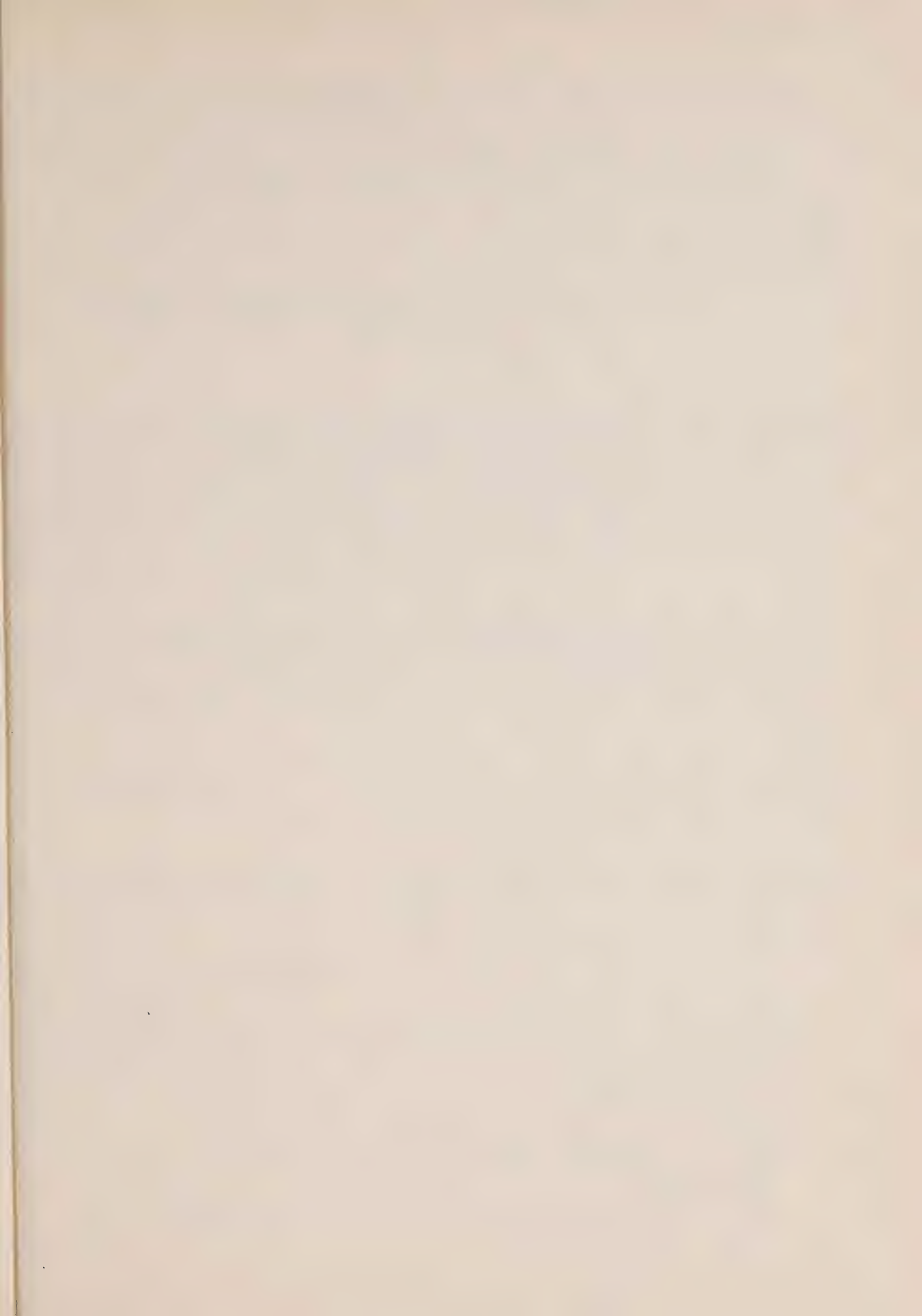
D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.

Exchange rate

United States Dollar in Canada
(Canadian cents)

<u>Period</u>		<u>High</u>	<u>Low</u>	<u>Closs</u>	<u>Noon Average</u>
1961	I Q	99.69	98.25	98.91	98.99
	II Q	103.53	98.59	103.50	99.42
	III Q	104.00	103.00	103.00	103.21
	IV Q	104.37	103.00	104.34	103.61
1962	I Q	105.03	104.34	105.00	104.77
	Jan.	104.69	104.34	104.69	104.50
	Feb.	105.03	104.72	105.03	104.88
	Mar.	105.03	104.75	105.00	104.94

Quotations for the United States dollar reported on transactions between banks in the Canadian exchange market are given in the accompanying statement. In the first quarter of 1962 rates for the United States dollar were maintained within a narrow range.



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QUARTERLY

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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

SECOND QUARTER 1962

Many important developments related to the balance of payments occurred in the second quarter of 1962 following changes in the first quarter when the official reserves of gold and foreign exchange declined \$364 million as a result of a current deficit of \$353 million and net capital outflows of \$11 million. Further declines in reserves occurred in April and early May. On May 2nd the Minister of Finance announced that the international exchange value of the Canadian dollar was being stabilized at 92 1/2 cents in terms of United States currency. In June the situation became more critical with further large declines in reserves, and on June 24th the Prime Minister announced that a comprehensive programme had become necessary to relieve the pressure on the Canadian dollar in the exchange field, to bring about a greater stabilization in Canada's international transactions, and to strengthen the exchange reserves. A further description of these official measures appears later in this publication along with the usual analysis of balance of payments changes.

The shape of the balance of payments in the second quarter was an enlargement in the current account deficit to \$377 million and a sharp rise to \$216 million in the net outflow of capital before changes in official reserves. The official exchange holdings accordingly fell much more than in the first quarter until the announcement by the Prime Minister and the subsequent special international financial assistance received. When this special borrowing in the quarter with a Canadian dollar value of \$707 million is taken into account there was an increase of \$114 million in the official reserves in the quarter.

Summary Statement

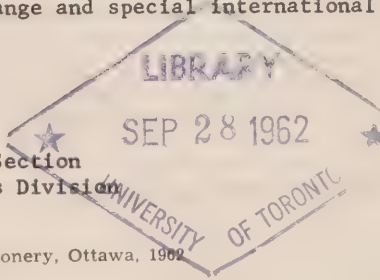
	1961				1962	
	I Q	II Q	III Q	IV Q	I Q	II Q
	(millions of dollars)					
Merchandise trade balance	+ 6	- 31	+ 138	+ 60	- 5	- 44
Deficit on non-merchandise transactions	- 344	- 284	- 195	- 332	- 348	- 333
Current account deficit	- 338	- 315	- 57	- 272	- 353	- 377
Capital movements(1)	+ 443	+ 366	- 5	+ 407	- 11	- 216
Special international financial assistance	-	-	-	-	-	+ 707
Change in official holdings of gold and foreign exchange(2)	- 105	- 51	+ 62	- 135	+ 364	- 114

1) Excluding change in official holdings of gold and foreign exchange and special international financial assistance.

2) Increase (-).

Prepared in the Balance of Payments Section
National Accounts and Balance of Payments Division

ROGER DUHAMEL, F.R.S.C., Queen's Printer and Controller of Stationery, Ottawa, 1962



The increase in the current account deficit in the second quarter over the previous year was chiefly from a further widening in the imbalance from non-merchandise transactions due mainly to larger payments to non-residents of interest and dividends and for business and other services. On merchandise account there was a small increase in the import balance with both exports and imports of merchandise rising to new peak values. Demands from the United States for exports were particularly strong in this period, and there were also increases over the previous year in shipments to the United Kingdom and the OECD nations.

Much greater changes occurred on capital account with the rapid expansion in the net outward movement to \$216 million which was made up of net outflows in long-term forms of \$48 million and in short-term forms of \$168 million. This contrasts with the predominant inflows on long-term account characteristic of a prolonged period before this year. In the June quarter there was a contraction in net inflows for direct investment in Canada to the lowest levels for many years, combined with a variety of outflows through portfolio security transactions and various short-term channels.

Small balance on merchandise trade

Canada's merchandise trade with other countries in the first half of 1962 moved up to unprecedentedly high levels both for exports and imports with rising trends continuing into the second quarter. Some of the rises in the values of both sides of trade are a reflection of the change in the foreign exchange value of the Canadian dollar, but increases in volume were also substantial. As the increases in both exports and imports when adjusted for balance of payments purposes were of comparable magnitude there was only a relatively small balance on merchandise trade, an import balance of \$49 million in the half year which was about double the small balance in the same period of the previous year.

The expansion in exports was due to a further rise in sales to the United States which increased by almost one-quarter. These exports have been at high levels since the latter half of last year and were still rising in the second quarter. The proportion of Canadian exports going to the United States at close to 60 per cent was the highest in several years. Although increases were widely distributed among commodities, a considerable part was contributed by the following: iron ore, petroleum and natural gas, nickel and other metals, wood pulp, lumber, and aircraft. The most outstanding decline in exports to the United States was in shipments of uranium.

Exports to overseas countries as a group, although still at high levels, were less than in the first half of last year because of a drop in the first quarter. Some of this drop occurred in exports to OECD countries which, however, rose again in the second quarter. Other reductions occurred in exports to Eastern Europe and Cuba and to some Commonwealth countries. On the other hand exports of grain to Communist China were substantially higher as this movement only became heavy in the second quarter of last year and exports to such leading markets as the United Kingdom and Japan continued at high levels, although totals were less than last year and shifts occurred in the composition of trade. With the United Kingdom larger exports of grains and aluminum partly offset drops in various industrial materials.

In the case of imports, too, the largest part of the rise has been in Canadian trade with the United States, although imports have also been higher from many overseas sources as well. In the six months the rate of increase of some 12 per cent in the value from all countries is slightly greater than the increase in exports to all countries. It would appear that a large part of the increase in imports, possibly one-half, originated in higher average prices which chiefly reflected the higher Canadian dollar costs of foreign exchange. The rise in imports as in exports continued in the second quarter.

Increases in imports have been widely distributed among commodities and include machinery and industrial equipment, industrial materials and many consumer goods. In the early part of the year for which full details are available increases over the previous year were considerable in such commodity items as those including business and industrial machinery, automobiles and automobile parts, electrical apparatus, textiles, grains, rubber and crude petroleum. Imports of military aircraft procured under special mutual defence arrangements which were a substantial total in the period have been excluded from the totals used in the Balance of Payments.

Deficit from services and other non-merchandise items

At \$333 million, the deficit from "invisible" transactions in the second quarter of 1962 was roughly 15 per cent higher than the level for the corresponding quarters of the two preceding years.

The widening of the deficit was derived largely from accelerated transfers of the returns on non-resident investment in the form of interest, profits and dividends, royalties, rentals, etc., and larger payments for non-resident business services of other kinds. These have been induced by high levels of production, and higher cost of the purchases due to currency devaluation. Changes in the opposite direction occurred in balances from travel expenditures and migrants' funds between the June quarters of 1961 and 1962. A sizable increase in the spending of United States travellers in Canada, partly offset by smaller gains in payments to the United States and overseas, accounted for the reduction in the overall deficit on travel account, while larger per capita funds of immigrants in the quarter had the effect of cutting the deficit moderately. The largest increase was recorded in the income account where a decline in receipts of interest and dividends from \$59 million to \$50 million together with a rise in the payments from \$174 million to \$206 million boosted the combined imbalance from \$115 million to \$156 million in the second quarter of 1962.

Major Components of the Balance on Non-Merchandise
Transactions with All Countries
(millions of dollars)

	First Half Year 1961	1962	Change
Gold production available for export	83	85	+ 2
Travel expenditures	- 160	- 160	-
Interest and dividends	- 283	- 304	- 21
Freight and shipping	- 36	- 49	- 13
Inheritances and migrants' funds	- 31	- 31	-
All other current transactions	- 201	- 222	- 21
Balance on non-merchandise transactions	- 628	- 681	- 53

Income Account: Payments
(millions of dollars)

Period	Total	Interest	Dividends
1960	653	239	414
1961	770	259	511
1960 II Q	161	65	96
III Q	157	53	104
IV Q	190	67	123
1961 I Q	204	61	143
II Q	174	68	106
III Q	170	58	112
IV Q	222	72	150
1962 I Q	179	67	112
II Q	206	77	129

In a comparison of the first half year of 1961 and 1962, the expansion of \$53 million in the deficit on non-merchandise transactions from \$628 million to \$681 million was mainly concentrated in the income account and business services, and to a lesser degree in freight and shipping services. A reduction of \$8 million in official contributions from \$21 million to \$13 million, together with a rise in the value of gold production available for export from \$83 million to \$85 million, provided a partial offset to the increase in the imbalance. The \$21 million increase in the deficit on income account resulted from a decline of \$14 million in receipts from \$95 million to \$81 million and a rise in payments from \$378 million to \$385 million. Lower receipts were mainly attributable to the absence in the first six months of 1962 of unusually large receipts of dividends of one year earlier. A rise of more than 10 per cent in interest payments from \$129 million to \$144 million was in part offset by slightly reduced dividend remittances in the half year. Dividends from direct investment were estimated to be about \$20 million below the level of the first half of 1961, but net profits of unincorporated branches were roughly \$10 million higher and dividends on portfolio investment were also moderately higher. While dividend payments in the second quarter of 1962 were more than one-fifth greater, they were not large enough to counterbalance the unusual concentration of dividend transfers by Canadian subsidiaries in the first quarter of 1961. About three-fifths of the enlarged interest payments was attributable to net new issues of Canadian securities and the remainder to the exchange devaluation.

In association with the growth in merchandise trade, both receipts and payments for freight and shipping services were higher in the half year 1962. But a larger rise in payments from \$258 million to \$283 million than in receipts from \$222 million to \$234 million contributed to a widening of \$13 million of the deficit on this account. In the two periods under reference, the deficits arising from travel expenditures and from migrants' funds and inheritances remained steady, respectively, at \$160 million and \$31 million, as receipts and payments gained equally for the two types of transactions. At \$30 million, the increase in receipts and payments for travel expenditures was substantially larger than the modest addition of \$4 million to migrants' funds and remittances.

As seen in the accompanying summary, the rise of \$28 million in the half year in the spending in Canada by United States travellers far outweighed that of travel receipts from overseas, while the increases in expenditures for travel by Canadians in the United States and elsewhere abroad were more comparable at \$12 million and \$18 million respectively. Accordingly, the deficit with the United States was reduced by about the same amount as the deficit with overseas countries increased.

Travel Account
(millions of dollars)

	<u>First Half Year</u>		
	1960	1961	1962
<u>United States:</u>			
Receipts	106	119	147
Payments	222	218	230
Balance	- 116	- 99	- 83
<u>Overseas:</u>			
Receipts	21	20	22
Payments	65	81	99
Balance	- 44	- 61	- 77
<u>All Countries:</u>			
Balance	- 160	- 160	- 160

current transactions" represented 29 per cent and 31 per cent, respectively, in the first half year of 1961 and 1962.

Transactions by areas

The 20 per cent rise in Canada's current account deficit in the second quarter of 1962 was concentrated in transactions with the Other Countries group, which recorded a reduction of \$75 million in the surplus from \$95 million to \$20 million. Since about one-quarter of this deterioration was attributable to transactions with the rest of the Sterling Area and as the balance on current account with the OECD countries improved moderately, most of the \$75 million decline in surplus took place in transactions (largely merchandise trade) with the remaining countries in the group. There was a rise in the current deficit with the United States from \$434 million to \$441 million. An improvement in the merchandise trade deficit with the United States through a larger increase in merchandise exports than in imports was overtopped by a fairly sizable rise in the deficit on "invisibles". In transactions with the United Kingdom, an increase of \$20 million in the current account surplus occurred, from \$24 million to \$44 million, mainly through a gain in Canadian exports.

In a comparison of the first halves of 1961 and 1962, the increase of \$77 million in the current account deficit with the outside world was likewise centred in transactions with Other Countries. The surplus of approximately \$150 million with this group was seven-eighths erased in the first six months of 1962, but the deficit with the United States was narrowed by about \$70 million. This favourable turn in the balance with the United States was derived from a substantial positive change in the merchandise trade balance, offset by an increase, about one-fourth as large, in the "invisible" deficit. Merchandise exports (adjusted for balance of payments use) gained nearly 25 per cent from \$1,447 million to \$1,803 million, as compared with a 14 per cent rise in imports (adjusted for balance of payments purposes) from \$1,873 million to \$2,135 million; and the deficit on merchandise trade declined from \$426 million to \$332 million. As a result of these changes the proportion of Canadian exports going to the United States mounted from about 53 per cent to nearly 60 per cent, while imports from the United States represented nearly 70 per cent of total imports in the first half of 1962 and roughly 68 1/2 per cent in the same period of 1961. Shipments of petroleum, iron ore and nickel gained more than \$50 million, \$40 million and \$30 million, respectively. Increases of between \$20 million and \$30 million occurred in exports of each of the following commodities: lumber, wood pulp, and aircraft. Larger net payments of interest and dividends and for business services and a reduced surplus on government transactions, which were in part offset by a decline in the deficit on travel account, contributed to enlarging the deficit on non-merchandise transactions from \$439 million to \$462 million.

Among "miscellaneous current transactions", changes in the deficits between the first halves of 1961 and 1962 were small and on the whole offsetting on government account, excluding official contributions, personal and institutional remittances and miscellaneous income. Under the unusual conditions of the period, an increase of a much greater magnitude is estimated in net payments for business services.

Notwithstanding the above-mentioned shifts, the proportionate contribution to the unfavourable balance on non-merchandise transactions remained materially unchanged for the principal items. Net payments of interest and dividends represented about 44 1/2 per cent of the "invisible" deficit in the first six months of 1962, as compared with 45 per cent in the same period one year earlier. Travel expenditures accounted for 25 1/2 per cent and 23 1/2 per cent of the deficit, while "miscellaneous

Quarterly Current Account Balances
(millions of dollars)

	<u>I Q</u>	<u>II Q</u>	<u>III Q</u>	<u>IV Q</u>
<u>United States</u>				
1960	- 343	- 449	- 165	- 404
1961	- 431	- 434	- 150	- 371
1962	- 353	- 441		
<u>United Kingdom</u>				
1960	+ 28	+ 12	+ 48	+ 78
1961	+ 37	+ 24	+ 42	+ 79
1962	+ 1	+ 44		
<u>Other Countries</u>				
1960	- 11	- 40	- 10	+ 13
1961	+ 56	+ 95	+ 51	+ 20
1962	- 1	+ 20		

In the exchange of goods and services with the United Kingdom, changes between the first six months of 1961 and 1962 were moderate. A decline in merchandise exports from \$440 million to \$430 million together with a rise in imports from \$293 million to \$296 million and in the deficit on "invisibles" from \$86 million to \$89 million combined to reduce Canada's current account surplus with the United Kingdom from \$61 million to \$45 million.

More than one-half of the fall in surplus on current account with Other Countries from \$151 million to \$19 million originated in transactions with the Rest of the Sterling Area and the OECD countries, with the two groups contributing about equally to the change; and the remaining countries accounted for about 45 per cent. An amount of \$105 million, or four-fifths of the \$132 million decline in the surplus, lay in merchandise trade. The decline in exports to Other Countries from \$826 million

to \$783 million was distributed fairly evenly among the constituent groups, while these contributed in the ratio of 1, 2 and 3 to the rise in imports from \$572 million to \$634 million in the first half of 1962. Exports of wheat to Mainland China expanded more than \$40 million, but exports to the U.S.S.R. declined almost \$16 million, and nearly \$10 million each to Czechoslovakia and Cuba.

Summary of Current Transactions with the
United States, United Kingdom and Other Countries, 1961 and 1962
and Change between the Periods
(millions of dollars)

	<u>All Countries</u>			<u>United States</u>		
	1961	1962	Change	1961	1962	Change
<u>Second Quarter</u>						
Merchandise exports (adjusted)	1,447	1,620	+ 173	770	945	+ 175
Merchandise imports (adjusted)	1,478	1,664	+ 186	990	1,141	+ 151
Balance on merchandise trade	- 31	- 44	- 13	- 220	- 196	+ 24
Other current receipts	453	483	+ 30	297	335	+ 38
Other current payments	737	816	+ 79	511	580	+ 69
Balance on non-merchandise transactions	- 284	- 333	- 49	- 214	- 245	- 31
Current account balance	- 315	- 377	- 62	- 434	- 441	- 7
<u>January to June</u>						
Merchandise exports (adjusted)	2,713	3,016	+ 303	1,447	1,803	+ 356
Merchandise imports (adjusted)	2,738	3,065	+ 327	1,873	2,135	+ 262
Balance on merchandise trade	- 25	- 49	- 24	- 426	- 332	+ 94
Other current receipts	792	830	+ 38	537	590	+ 53
Other current payments	1,420	1,511	+ 91	976	1,052	+ 76
Balance on non-merchandise transactions	- 628	- 681	- 53	- 439	- 462	- 23
Current account balance	- 653	- 730	- 77	- 865	- 794	+ 71

Summary of Current Transactions with the
United States, United Kingdom and Other Countries, 1961 and 1962
and Change between the Periods - Continued
(millions of dollars)

	United Kingdom			Other Countries		
	1961	1962	Change	1961	1962	Change
<u>Second Quarter</u>						
Merchandise exports (adjusted)	217	238	+ 21	460	437	- 23
Merchandise imports (adjusted)	158	160	+ 2	330	363	+ 33
Balance on merchandise trade	+ 59	+ 78	+ 19	+ 130	+ 74	- 56
Other current receipts	55	58	+ 3	101	90	- 11
Other current payments	90	92	+ 2	136	144	+ 8
Balance on non-merchandise transactions	- 35	- 34	+ 1	- 35	- 54	- 19
Current account balance	+ 24	+ 44	+ 20	+ 95	+ 20	- 75
<u>January to June</u>						
Merchandise exports (adjusted)	440	430	- 10	826	783	- 43
Merchandise imports (adjusted)	293	296	+ 3	572	634	+ 62
Balance on merchandise trade	+ 147	+ 134	- 13	+ 254	+ 149	- 105
Other current receipts	95	97	+ 2	160	143	- 17
Other current payments	181	186	+ 5	263	273	+ 10
Balance on non-merchandise transactions	- 86	- 89	- 3	- 103	- 130	- 27
Current account balance	+ 61	+ 45	- 16	+ 151	+ 19	- 132

The foreign exchange situation

Some of the balance of payments problems which Canada faced in the second quarter were not new. The persistent deficits on current account, varying with changing commodity trade conditions but based on an apparently intractable deficit from non-merchandise transactions, had exceeded the capital inflow on long-term forms each year after 1956. By mid-1960 the accumulated current account balance since the end of World War II exceeded the corresponding capital movement in long-term forms; over the period Canada had begun to borrow "short".

The completion of some extended capital projects, unused productive capacity, and uncertainties arising from policy changes at provincial and national levels added to the problems of the Canadian balance of payments.

The remedial measures which had been taken to restore equilibrium failed to do so in the face of demands generated by rising economic activity. Capital movements in long-term forms continued to contract, and in the second quarter turned outwards. With growing uncertainty, outward private movements in short-term forms developed on a substantial scale. The pressure of a substantial net export of private capital from Canada combined with the current account deficit to exert heavy demands on official holdings of gold and foreign exchange.

While a precise division of the capital movement is not possible, it is clear that the outflow of Canadian capital was an important element in the net movement in the second quarter. The growth of Canadian private holdings of foreign currency bank balances and similar short term funds abroad represented an outflow of \$242 million, and Canadian direct and portfolio investment abroad added a further \$55 million to outflows. These items were greatly in excess of the net outflow of \$216 million of all types of capital, apart from official financing. But there are some types of movement whose motivation cannot be clearly established, and the movement of Canadian funds abroad may include some amounts representing shifts in the working capital of foreign-controlled concerns in Canada.

Following six successive months of decline in Canada's official holdings of gold and United States dollars, from a peak of \$2,110.6 million in terms of United States funds at the end of October 1961 to \$1,594.8 million at the end of April 1962, the Minister of Finance announced that effective May 3 the international exchange rate of the Canadian dollar was being stabilized at 92 1/2 cents in terms of United States currency. The new rate had been formally established with the concurrence of the International Monetary Fund and the Government of Canada undertook to maintain it within the normal margin of one per cent on either side.

United States Dollar in Canada
(Canadian cents)

<u>Period</u>		<u>High</u>	<u>Low</u>	<u>Close</u>	<u>Noon Average</u>
1961	I Q	99.69	98.25	98.91	98.99
	II Q	103.53	98.59	103.50	99.42
	III Q	104.00	103.00	103.00	103.21
	IV Q	104.37	103.00	104.34	103.61
1962	I Q	105.03	104.34	105.00	104.77
	II Q	109.00	104.87	108.19	107.42
	Apr.	105.00	104.87	105.00	104.98
	May	109.00	105.00	109.00	108.23
	June	109.00	107.94	108.19	108.79

The reintroduction of a stabilized exchange rate ended the period of the "floating rate" which had prevailed since September 1950. The Minister indicated that while this system had had certain advantages the Government had concluded that it would be desirable to give those engaged in international transactions firm assurance of stability with regard to the exchange rate. Canada had been confronted for a decade with large deficits in its international trade and payments associated with excessive capital imports and consequent overvaluation of its

currency. To meet this situation the Government had taken a series of steps designed to facilitate an orderly movement of the exchange rate to a level more in keeping with the country's balance of payments. Since June 1961, the exchange rate had been held within a narrow range. For some months during the autumn of 1961 the Government bought United States dollars on a large scale at about \$1.03. During the winter months from January through April when the demand for foreign exchange exceeded the supply the Government provided a substantial volume of United States dollars to the market at a price of about \$1.05. The new rate, equivalent to about \$1.08, had been established after assessment of the factors involved, including the attitudes in the foreign exchange market and the nature of the exchange transactions which had been taking place in recent months.

With the stabilization of the exchange rate, the decline in official holdings of gold and United States dollars abated temporarily and holdings were reported to be \$1,492.8 million at the end of May. In June, however, the situation deteriorated rapidly and on June 24th the Prime Minister announced that a comprehensive programme had become necessary to relieve the pressure on the Canadian dollar in the exchange field, to bring about a greater stability in Canada's international transactions and to strengthen the exchange reserves. The deficit in the current account remained a continuing problem. Canada had become accustomed to large capital inflows from abroad, and the immediate difficulties had been precipitated by the drying-up of the net capital inflow, and more recently a net capital outflow. The excess of imports of goods and services over exports had been paid for out of reserves of gold and United States dollars.

The measures introduced by the Government included temporary graduated surcharges ranging between 5 and 15 per cent on approximately one-half of all imports. There was also a temporary reduction in the amount of goods which Canadians travelling abroad were permitted to bring duty-free into Canada. These two measures were expected to lead to a significant improvement in the Canadian international account.

The third course of action involved reductions in Government expenditures amounting to \$250 million, which, when combined with the import surcharges, were expected to narrow the budgetary deficit by about \$450 million in a full year. Further, the Minister of Finance would earmark for financing increases in the exchange reserves Canadian dollar cash balances equivalent to the sales of exchange from the reserves.

The Prime Minister stated that at the time of the introduction of these measures Canada's official holdings of gold and United States dollars stood at approximately \$1,100 million. At the beginning of 1962 they had been \$2,056 million. To reinforce these reserves Canada had arranged for international financial support of well over one billion dollars in cash and stand-by credits from the International Monetary Fund, the Federal Reserve System of the United States, the United Kingdom, and the Export-Import Bank in Washington. After drawing \$650 million of these resources Canada's official holdings of gold and foreign exchange at the mid-year were \$1,809 million.

Capital Movements

Summary	1961				1962	
	I Q	II Q	III Q	IV Q	I Q	II Q
	(millions of dollars)					
Capital movements in long term forms	+ 147	+ 213	+ 144	+ 99	+ 16	- 48
Capital movements in short term forms(1)	+ 296	+ 153	- 149	+ 308	- 27	- 168
Balance on goods and services	- 338	- 315	- 57	- 272	- 353	- 377
Total of above	+ 105	+ 51	- 62	+ 135	- 364	- 593
Special international financial assistance	-	-	-	-	-	+ 707
Change in official holdings of gold and foreign exchange(2)	- 105	- 51	+ 62	- 135	+ 364	- 114

(1) Excluding change in official holdings of gold and foreign exchange and special international financial assistance.

(2) Increase (-).

DIRECT INVESTMENT The net inflow of foreign capital for direct investment in foreign-controlled enterprises in Canada is estimated to have fallen sharply from \$85 million in the first quarter to \$50 million in the second. This level was less than half the quarterly rate for 1961, and was the lowest since the first quarter of 1951. Apart, however, from transactions involving the acquisition of existing concerns or interests or refinancing etc., having no counterpart in current new capital formation in Canada, other direct investment inflows were larger in the second quarter than in the first. On balance the special transactions in the second quarter reflected the decision by some non-residents to liquidate investments in Canada, although there were also a number of acquisitions by non-residents influenced perhaps by the lower capital outlay required in foreign funds.

Industrially inflows to the petroleum and natural gas industry appear to have been maintained at about the same total as in the first quarter, seasonal increases in the inflow to some companies in the second quarter having replaced some takeover inflows in the first. Mining received a much larger share of the inflow in both relative and absolute terms. Increased flows to finance iron ore expansion and development programmes in the second quarter were particularly important. There appear to have been outflows to manufacturing and other industries taken as a group, reflecting some re-financing as well as reductions in working capital some of which may arise from depreciation provision. These were in contrast to significant inflows in the first quarter when takeover transactions were important.

Since the outflows were largely to the United States, overseas countries contributed a larger share of the net inflow than in the first quarter. The share of the United States is estimated to have fallen from about seven-tenths to somewhat more than a half the net movement. While the shares of the United Kingdom and other overseas countries in the movement rose, the inflow from this group of countries remained relatively unchanged in value.

The net outflow of Canadian capital for direct investment abroad is placed at \$20 million in the second quarter, down \$5 million from the first. The movements, which were widely spread industrially and regionally, included the acquisition and disposition of a variety of interests as well as expansion.

SECURITY TRANSACTIONS During the second quarter of 1962 all transactions in portfolio securities between Canada and other countries led to a net capital inflow of \$29 million. However this figure included some \$125 million of new corporate borrowing which was applied to the refinancing of direct investment and other capital transactions. After eliminating the effects of these rather special inflows, there was an outflow of \$96 million in the second quarter compared with \$61 million in the first and with an inflow of \$148 million in the corresponding quarter of 1961. Official security transactions in connection with the reciprocal currency arrangements entered into between Canada, the United States, and the United Kingdom in June are not included.

Sales by Canadians of outstanding Canadian bonds exceeded repurchases by \$4 million but there was a sharp change within the quarter. Net repurchases rose from \$9 million in March to \$23 million in April, but then swung rapidly to net sales of \$18 million and \$9 million in the two succeeding months. The yield differential between long-term government issues in Canada and the United States was relatively stable through the first four months of 1962, ranging between 83 to 87 base points on the last Wednesday of the month quotations for Canada 3 3/4/78 and United States 3 1/4/83. It rose sharply to 106 base points by the last Wednesday in May and to 132 base points a month later thus reverting to the levels of early 1961.

Net Sales of Outstanding Canadian Stocks
to Non-residents
(millions of dollars)

Quarter		Total	United States	Other Countries
1960	II	24	22	2
	III	10	14	- 4
	IV	2	13	- 11
1961	I	13	21	- 8
	II	32	45	- 13
	III	-	22	- 22
	IV	- 5	32	- 37
1962	I	- 7	15	- 22
	II	- 46	- 4	- 42

The small sales balance from trade in outstanding Canadian bonds and debentures during the quarter was dwarfed by net repurchases of \$46 million of outstanding Canadian stocks. In both May and June repurchase balances set new monthly records for the post-war period. While residents of overseas countries had been liquidating their holdings of Canadian stocks each quarter since mid-1960, residents of the United States continued to add to their holdings until the second quarter of 1962. In the two year period Canadians repurchased from residents of overseas countries some \$159 million but sold to residents of the United States \$158 million.

Receipts of \$167 million from the sale to non-residents of new issues of Canadian securities were at their highest level since the second quarter of 1961, but it has already been noted that they included some \$125 million of special refinancing. Most of the total was made up of corporate issues which produced \$154 million. Retirements of non-resident-owned Canadian securities continued to be large at \$61 million, mainly arising from contractual maturities.

Price of United States Stocks in terms of
Canadian Stocks
(December 1961 = 100)

Year	Month	At Cdn. \$1 = U.S. \$1	At market exchange rate
1960	December	103	97
1961	December	100	100
1962	March	98	99
	June	94	98

Based on "DBS Investors" and "Standard and Poor's 500" Indexes.

Residents of Canada stepped up their acquisition of foreign securities during the second quarter. The first quarter purchase balance of \$27 million reflected in part the development of new investment intermediaries. In the second quarter the purchase balance rose further to \$35 million. The largest part of the outflow in each quarter covered the purchase of outstanding foreign stocks, mainly of United States corporations.

The shifts by non-residents out of Canadian stocks and shifts by Canadians into United States stocks appear in part to have reflected a decline in stock prices which was greater in the United States than in Canada.

OFFICIAL TRANSACTIONS Regular instalments of principal fell due during the second quarter on intergovernmental loans to Belgium and the Netherlands, giving rise to capital inflow of \$7 million. Other Canadian aid abroad has been covered in the items "Official Contributions" and in "Other Capital Movements" which includes credits extended through official and private agencies under Government guarantee.

The special international financial assistance provided to Canada during the quarter amounted to \$650 million in terms of United States dollars, or to about \$707 million in Canadian funds. It was made up both of a drawing from the International Monetary Fund of various foreign currencies equivalent to \$300 million in United States funds, and of reciprocal currency arrangements entered into with the Federal Reserve System in the United States and with the Bank of England under which \$250 million and 100 million respectively in terms of United States funds were made available to Canada. A \$400 million line of credit provided by the Export-Import Bank of Washington has not been used.

The drawing on the IMF was comprised of the equivalent of \$100 million in pounds sterling, 30 million in deutsche mark, \$80 million in French francs, \$20 million in Belgian francs, and \$20 million in Netherlands guilders.

Apart from these special drawings during the quarter there were repayments of Canadian dollars to the IMF by the United Kingdom equivalent to \$40 million in United States funds. These credits are reflected in "Other Capital Movements".

INTERNATIONAL MONETARY FUND: CANADA'S POSITION

	<u>Net drawings of foreign currencies by Canada</u>	<u>Net drawings (-) of Canadian dollars by other countries</u>	<u>Net Sales of Canadian dollars to IMF for gold</u>	<u>IMF holdings of Canadian dollars(1)</u>	<u>Canada's Gross IMF Position(2)</u>	<u>Canada's Net IMF Position(3)</u>
--	---	--	--	--	---	---

(millions of United States dollars)

1947		-	-	-	225	375	75
1956		-	- 15	-	210	390	90
1959		-	-	-	397	703	153
1961	I Q	-	-	-	398	702	152
	II Q	-	- 10	-	388	712	162
	III Q	-	- 75	25	338	762	212
1962	I Q	-	10	-	348	752	202
	II Q	300	40	-	688	412	- 138

- (1) Apart from the transactions shown, these holdings reflect mainly Canada's quota payments made in Canadian dollars. Since members are obligated to maintain the gold value of the IMF's holdings of their currencies, there have also been adjustment payments in Canadian dollars between the IMF and Canada, arising from changes in the exchange rate, which are not reflected because the series are shown in United States dollar equivalents.
- (2) This is a measure of Canada's drawing potential - the amount Canada could draw without raising the IMF's holdings of Canadian dollars beyond 200 per cent of quota.
- (3) This is a cumulative measure of the net resources provided by Canada to the IMF.

The reciprocal currency arrangements entered into between the Bank of Canada and the Federal Reserve System and Bank of England are reflected in the Bank of Canada's balance sheet as an increase in holdings of United States dollar securities and a decline in its holdings of Government of Canada securities. The net holdings by the Bank of Canada of gold and United States dollars are included,

Official Holdings of
Gold and United States dollars
(millions of United States dollars)

<u>End of</u>	<u>Amount</u>	<u>Change in Period</u>
1961		
I Q	1,935	+ 106
II Q	1,985	+ 50
III Q	1,924	- 61
IV Q	2,056	+ 132
1962		
I Q	1,709	- 346
II Q	1,809	+ 99
II Q*	1,159*	- 551*
1962		
Apr.	1,595	- 115
May	1,493	- 102
June	1,809	+ 316
June*	1,159*	- 334*

After this extraordinary assistance Canada's official holdings of gold and United States dollars rose during the quarter from \$1,709 million in United States funds to \$1,809 million. The Canadian dollar equivalent of changes in official holdings of gold and foreign exchange was \$114 million, while the Canadian dollar value of the special assistance made available in late June was \$707 million. The indicated "net" exchange deficit of \$593 million in the second quarter followed one of \$364 million in the first quarter.

* Excludes special international financial assistance.

OTHER CAPITAL MOVEMENTS

Canadian dollar holdings of non-residents rose by \$34 million during the second quarter, having fallen by \$31 million in the first. The surprising capital inflow in this type of capital movement in the second quarter reflected a substantial increase in holdings by non-residents of Government of Canada treasury bills. Other holdings in the form of deposits, etc., were reduced. The build-up of foreign holdings of Canadian treasury bills occurred in the early part of the quarter with increases of \$50 million and \$17 million in April and May respectively, and a reduction of \$17 million in June, although the yield differential in favour of Canadian bills was much higher from the middle of May onwards, both before and after the cost of forward exchange protection, than was the case earlier. Residents of the United States increased their holdings of both treasury bills and deposits in the second quarter, while residents of overseas countries increased their holdings of treasury bills but reduced their deposits by a substantially greater amount.

Change in Canadian dollar holdings of foreigners (millions of dollars)

	Quarter	Total	Treasury Bills	Deposits etc.
1960	II	- 2	- 10	+ 8
	III	+ 45	+ 27	+ 18
	IV	+ 79	+ 47	+ 32
1961	I	- 5	+ 32	- 37
	II	- 72	- 76	+ 4
	III	- 1	- 34	+ 33
	IV	+ 44	+ 18	+ 26
1962	I	- 31	+ 17	- 48
	II	+ 34	+ 50	- 16

The striking capital export of \$242 million associated with increased private and banking holdings of foreign bank balances and

similar short-term funds abroad during the second quarter brought total estimated holdings to almost \$1,300 million. The movement in the second quarter involved an even larger increase in private holdings which was partly offset by reductions in the net foreign currency positions of the Chartered Banks. While changes of these holdings of foreign exchange represent capital movements to be reflected in statements of the balance of payments, the existence of swap and other forward market facilities makes possible the creation or transfer of exchange positions between various sectors of the economy without reflection on the statements.

Among other capital movements, the inflow of \$41 million arising from repayments to the International Monetary Fund of Canadian dollars drawn by the United Kingdom has already been mentioned. Other long-term capital transactions gave rise to an outflow of \$114 million, most of which represented repayments of bank loans which were financed from the sale to non-residents of a new corporate bond issue. There was a substantial amount of borrowing from non-residents by finance companies during the quarter, but repayments of commercial and finance paper were also larger, and the net inflow from this group of transactions was reduced to \$7 million. All other capital transactions together led to a small outflow of \$8 million in the second quarter, following one of \$84 million in the preceding quarter. Substantial inflows are normally characteristic of this group of movements in the first half of the year. It includes a variety of increases and decreases in accounts receivable and payable, as well as the balancing item representing the difference between direct measurements of the current and capital accounts.

A statement showing these capital movements appears on page 14.

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1961-62 are preliminary and

		1960			1961
		II	III	IV	I
A	Current Receipts				
1	Merchandise exports (adjusted)	1,321	1,398	1,392	1,266
3	Gold production available for export	35	42	41	41
4	Travel expenditures	91	221	72	38
5	Interest and dividends	39	35	65	36
6	Freight and shipping	115	118	107	102
7	Inheritances and immigrants' funds	29	31	24	19
11	All other current receipts	107	111	101	103
12	Total Current Receipts	1,737	1,956	1,802	1,605
B	Current Payments				
1	Merchandise imports (adjusted)	1,508	1,316	1,392	1,260
4	Travel expenditures	168	213	127	129
5	Interest and dividends	161	157	190	204
6	Freight and shipping	137	141	141	116
7	Inheritances and emigrants' funds	43	50	50	35
9	Official contributions	10	17	24	13
11	All other current payments	187	189	191	186
12	Total Current Payments	2,214	2,083	2,115	1,943
	Balance on Merchandise Trade	- 187	+ 82	-	+ 6
	Balance on Other Transactions, excluding B 9	- 280	- 192	- 289	- 331
	Official Contributions	- 10	- 17	- 24	- 13
C	Current Account Balance	- 477	- 127	- 313	- 338
D	Capital Account				
	Direct Investment				
1	Direct investment in Canada	+ 144	+ 168	+ 137	+ 120
2	Direct investment abroad	- 25	- 29	- 16	- 40
	Canadian Securities				
3a	Trade in outstanding bonds and debentures	+ 15	- 19	- 12	+ 31
3b	Trade in outstanding common and preference stocks	+ 24	+ 10	+ 2	+ 13
4	New issues	+ 146	+ 52	+ 40	+ 90
5	Retirements	- 78	- 32	- 93	- 69
	Foreign Securities				
6	Trade in outstanding issues	- 5	+ 2	- 24	+ 3
7	New issues	- 3	- 2	- 11	- 5
8	Retirements	+ 3	+ 7	+ 2	+ 2
	Loans by Government of Canada				
9	Drawings	-	-	-	-
10,11	Repayments	+ 7	-	+ 25	+ 3
13	Subscriptions in gold and U.S. dollars to international financial agencies	-	- 1	- 2	-
14	Change in Canadian dollar holdings of foreigners	- 2	+ 45	+ 79	- 5
15	Special international financial assistance	-	-	-	-
16	Change in official holdings of gold and foreign exchange (increase, minus)	+ 82	- 40	- 14	- 105
17	Other capital movements	+ 169	- 34	+ 200	+ 300
E	Net Capital Movement	+ 477	+ 127	+ 313	+ 338

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports on B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance transactions, and business services.

BALANCE OF INTERNATIONAL PAYMENTS

data for 1960 are subject to revision.

1961			1962		Annual Totals		Four quarters ended		
II	III	IV	I	II	1959	1960	1961	June 30, 1962	
(millions of dollars)									
1,447	1,557	1,619	1,396	1,620	5,150	5,392	5,889	6,192	A
42	41	38	43	42	148	162	162	164	1
101	254	80	43	126	391	420	473	503	3
59	40	74	31	50	182	173	209	195	4
120	135	129	105	129	420	442	486	498	5
28	31	25	19	32	109	102	103	107	6
103	99	98	106	104	392	419	403	407	7
									11
1,900	2,157	2,063	1,743	2,103	6,792	7,110	725	8,066	12
									B
1,478	1,419	1,559	1,401	1,664	5,572	5,540	5,716	6,043	1
170	214	120	141	188	598	627	633	663	4
174	170	222	179	206	671	653	770	777	5
142	151	159	126	157	525	533	568	593	6
43	49	47	38	44	165	181	174	178	7
8	15	20	6	7	72	61	56	48	9
200	196	208	205	214	693	758	790	823	11
									12
2,215	2,214	2,335	2,096	2,480	8,296	8,353	8,707	9,125	
- 31	+ 138	+ 60	- 5	- 44	- 422	- 148	+ 173	+ 149	
- 276	- 180	- 312	- 342	- 326	-1,010	-1,034	-1,099	-1,160	
- 8	- 15	- 20	- 6	- 7	- 72	- 61	- 56	- 48	
									C
- 315	- 57	- 272	- 353	- 377	-1,504	-1,243	- 982	-1,059	
									D
+ 140	+ 75	+ 85	+ 85	+ 50	+ 550	+ 645	+ 420	+ 295	1
- 35	- 15	- 20	- 25	- 20	- 80	- 85	- 110	- 80	2
+ 34	- 12	+ 10	- 3	+ 4	+ 91	+ 3	+ 63	- 1	3a
+ 32	-	- 5	- 7	- 46	+ 110	+ 49	+ 40	- 58	3b
+ 171	+ 127	+ 104	+ 38	+ 167	+ 707	+ 447	+ 492	+ 436	4
- 93	- 29	- 101	- 62	- 61	- 258	- 253	- 292	- 253	5
-	+ 2	- 10	- 31	- 37	- 32	- 20	- 5	- 76	6
- 18	- 6	- 5	- 1	- 3	- 13	- 18	- 34	- 15	7
+ 2	+ 3	+ 2	+ 5	+ 5	+ 12	+ 18	+ 9	+ 15	8
-	-	-	-	-	- 1	-	-	-	9
+ 7	-	+ 27	+ 3	+ 7	+ 34	+ 32	+ 37	+ 37	10,11
-	-	-	-	-	- 59	- 3	-	-	13
- 72	- 1	+ 44	- 31	+ 34	+ 13	+ 120	- 34	+ 46	14
-	-	-	-	+ 707	-	-	-	+ 707	15
- 51	+ 62	- 135	+ 364	- 114	+ 70	+ 39	- 229	+ 177	16
+ 198	- 149	+ 276	+ 18	- 316	+ 360	+ 269	+ 625	- 171	17
+ 315	+ 57	+ 272	+ 353	+ 377	+1,504	+1,243	+ 982	+1,059	E

NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.

Composition of "Other Capital Movements"
(millions of dollars)

	1961				1962	
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter
Transactions with all countries						
International Financial Agencies(1)						
Canadian dollar subscriptions	-	9	-	8	- 22	- 13
Short-term Canadian dollar holdings	2	-	52	7	33	54(2)
Other long-term capital transactions	- 1	- 27	- 1	12	14	- 114
Bank balances and other short-term funds abroad (excluding official reserves)	128	54	- 140	112	49	- 242
Borrowings from non-residents by finance companies, and non-resident holdings of commercial paper	71	21	- 1	17	28	7
All other transactions including changes in loans and accounts receivable and payable(3)	100	159	45	136	- 84	- 8
TOTAL (Item D 17)	300	198	- 149	276	18	- 316

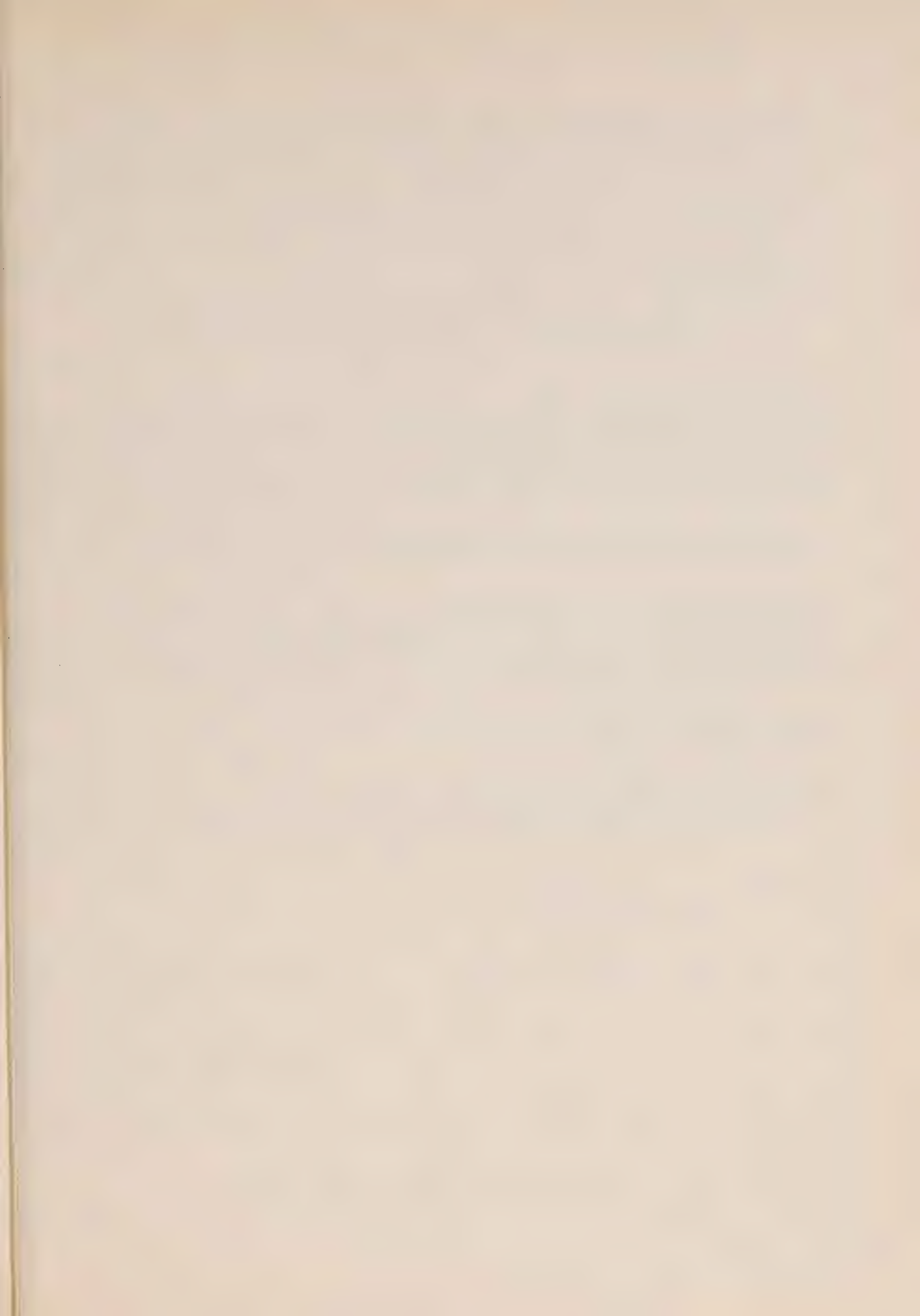
(1) International Bank for Reconstruction and Development, International Monetary Fund, and International Development Association.

(2) Excludes counterpart of special financial assistance to Canada which is included in D 15.

(3) Includes also balancing item representing difference between direct measurements of current and capital accounts.

NOTES: The figures in this statement are based on incomplete data, and make use in some cases of statistics compiled in other countries. The items are therefore subject to greater possible error than others in the balance of payments statement.

A minus sign indicates an outflow of capital from Canada.



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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

THIRD QUARTER 1962

A variety of factors led to a marked improvement in Canada's foreign exchange position in the third quarter in contrast to the losses of exchange reserves in the second quarter. Contributing to the rise in official reserves of \$686 million in terms of Canadian dollars in the quarter were a seasonal reduction in the current account deficit to \$61 million from \$377 million in the second quarter, net inflows of capital in long-term forms of \$247 million compared with net outflows of \$13 million in the second quarter and net inflows of capital in short-term forms of \$500 million compared with net outflows of \$203 million in the second quarter.

These changes followed the official measures introduced towards the end of June and the stabilization of the foreign exchange value of the Canadian dollar in May which were described in the second quarter issue of this publication.

The sharp contraction in the current account deficit from the second quarter brought it to about the same overall size as in the third quarter 1961, but the sources were quite different as a reduced deficit this year from non-merchandise transactions largely offset a smaller surplus from merchandise trade. This change was mainly due to a significant expansion in the surplus on travel account from \$35 million in the third quarter of last year to \$89 million in this quarter of this year, together with some reductions in dividend transfers and in official contributions.

The resumption of net capital inflows in long-term forms included larger direct investment inflows, larger net new issues and other sales of bonds, and reduced outflows from transactions in both Canadian and United States stocks.

In large measure net movements of capital in short-term forms represented shifts by residents from Canadian into foreign currency in the second quarter, and the subsequent reverse flow in the third quarter, of some quarter of a billion dollars of balances, as well as increased borrowing in foreign currencies by residents in the third quarter.

Summary Statement

	1961			1962		
	II Q	III Q	IV Q	I Q	II Q	III Q
	(millions of dollars)					
Merchandise trade balance	- 31	+ 138	+ 60	- 5	- 45	+ 58
Deficit on non-merchandise transactions	- 280	- 200	- 332	- 348	- 332	- 119
Current account deficit	- 311	- 62	- 272	- 353	- 377	- 61
Capital movements: (1)						
Long term forms	+ 270	+ 199	+ 135	+ 35	- 13	+ 247
Short term forms	+ 92	- 199	+ 272	- 46	- 203	+ 500
Special international financial assistance	-	-	-	-	+ 707	-
Change in official holdings of gold and foreign exchange (2)	- 51	+ 62	- 135	+ 364	- 114	- 686

(1) Excluding change in official holdings of gold and foreign exchange and special international financial assistance.

(2) Increase (-).

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Small balance on merchandise trade

There was a continued rise in Canada's merchandise trade to a higher level in the 9 months of 1962, with imports recording a larger increase than exports both over this period and also in the third quarter. After adjustment for balance of payments purposes, merchandise exports rose nearly nine per cent from \$4,270 million to \$4,644 million, and imports expanded 11 1/2 per cent from \$4,157 million to \$4,636 million in the first three quarters of 1962. This resulted in cutting the surplus on merchandise trade from \$113 million to some \$8 million. In the third quarter there was a contraction in the export balance from \$138 million in 1961 to \$58 million in 1962.

Something less than one-half of the increases on both sides of trade in the 9 month period was ascribable to higher export and import prices, a reflection of the change in the foreign exchange value of the Canadian dollar.

Canada's usual favourable balance on merchandise trade with the overseas countries contracted about one-third from \$612 million to \$413 million, while the trade deficit with the United States was reduced 20 per cent from \$499 million to \$405 million. As a result of these shifts nearly 60 per cent of total Canadian exports went to the United States in the three quarters of 1962, as compared with 54 per cent in the same period of 1961. Imports from the United States in the two periods made up about the same proportion of 68 per cent. The share of total trade with the United Kingdom slipped down roughly one percentage point both in exports to 14 1/2 per cent and in imports to 9 1/2 per cent. While imports from Other Countries accounted for 22 per cent of the total in each period, the share of exports to this group of countries declined from 30 per cent to 26 per cent.

Substantial gains were recorded in exports of petroleum and natural gas, iron ore, aluminum, lumber and aircraft, and smaller increases in nickel and non-farm machinery. Shipments abroad of commodities such as wheat, uranium, newsprint and plastics and synthetic rubber were lower during the 9 months of 1962.

In the case of imports, automobiles and parts, non-farm machinery and electrical apparatus were featured prominently among commodities which were higher in 1962. The value of aircraft reported in import entries was also larger. After taking into account, however, of military aircraft received under mutual defence arrangements, which are not included in the balance of payments, and of civil aircraft whose purchases had previously been reflected on the basis of progress payments, there appeared to be a smaller change in payments for aircraft between the two periods.

Deficit in services and other non-merchandise items

While the surplus on merchandise trade narrowed by \$80 million, a reduction of a similar magnitude took place in net payments on non-merchandise transactions from \$200 million in the third quarter of 1961 to \$119 million in the same period of 1962. This represents a substantial relative drop of 40 per cent. Fully two-thirds of this amelioration originated in travel expenditures, with net receipts increasing from \$35 million to \$89 million. The improvement occurred in the travel account with the United States as there was a further rise in the travel deficit with overseas countries. There was a rise of \$34 million in expenditures in Canada by visitors from the United States together with a reduction of some \$27 million in spendings by Canadian travellers in the United

States, following the further depreciation of Canadian currency in May and the reduction in June in the amount of duty-free tourist purchases. At the same time, levels were lower in the third quarter in transfers abroad of dividends and official contributions by the Canadian Government. After acceleration in the second quarter, business service payments relented somewhat in the third. The reduction in net payments of inheritances and migrants' funds, on account of increased immigration and of unusually high per capita funds of the arrivals in the current quarter, was counterbalanced by a larger deficit on freight and shipping services, associated with rising imports.

Receipts of interest and dividends were up respectively \$3 million and \$1 million in the third quarter of 1962. Interest payments abroad rose \$4 million, while dividend transfers declined \$10 million. These changes together

Income Account: Payments (millions of dollars)

<u>Period</u>		<u>Total</u>	<u>Interest</u>	<u>Dividends</u>
1960		653	239	414
1961		770	259	511
1960	III Q	157	53	104
	IV Q	190	67	123
1961	I Q	204	61	143
	II Q	174	68	106
	III Q	170	58	112
	IV Q	222	72	150
1962	I Q	179	67	112
	II Q	208	77	131
	III Q	164	62	102

yielded a \$10 million amelioration in the income account deficit. The net effect of new issues, retirements and trade in outstanding securities was responsible for more than one-half of the \$4 million rise in interest payments, and the remainder was due to exchange rate variations. The payment of several large non-recurring dividends in the third quarter of 1961 and lowered remittances of dividends by subsidiaries in the current quarter combined to reduce dividend payments by \$10 million.

Major Components of the Balance on Non-Merchandise Transactions with All Countries

(millions of dollars)

	First Nine Months		
	1961	1962	Change
Gold production available for export	124	124	-
Travel expenditures	- 120	- 71	+ 49
Interest and dividends	- 413	- 423	- 10
Freight and shipping	- 52	- 76	- 24
Inheritances and migrants' funds	- 49	- 37	+ 12
All other current transactions	- 313	- 316	- 3
Balance on non-merchandise transactions	- 823	- 799	+ 24

Travel Account
(millions of dollars)

	First Nine Months		
	1960	1961	1962
<u>United States:</u>			
Receipts	311	358	419
Payments	373	372	353
Balance	- 62	- 14	+ 66
<u>Overseas:</u>			
Receipts	37	39	39
Payments	127	145	176
Balance	- 90	- 106	- 137
<u>All Countries:</u>			
Balance	- 152	- 120	- 71

Transactions by areas

In the bilateral distribution of the current account balance, the deficit with the United States declined \$61 million between the third quarters of 1961 and 1962, from \$151 million to \$90 million while the surplus with the United Kingdom rose from \$42 million to \$49 million. The current account balance with Other Countries, on the other hand, changed from a surplus of \$47 million to a deficit of \$20 million, or a turn-around of \$67 million.

A reduction of \$71 million in the quarter in net payments to the United States on non-merchandise transactions (largely attributable to travel, business service payments and migrants' funds) was offset by a widening of \$10 million in the merchandise trade deficit. Merchandise exports to the United Kingdom increased from \$236 million to \$245 million while imports remained unchanged at \$145 million, and net payments on services gained from \$49 million to \$51 million. In transactions with Other Countries, the merchandise trade balance was sharply cut by nearly \$80 million from \$120 million to \$41 million, but a smaller deficit on non-merchandise transactions moderated the deterioration in the current account balance by \$12 million to \$67 million. Within this group, only one-quarter of the negative change was ascribable to transactions with the Rest of the Sterling Area and the other OECD countries and 75 per cent to the remaining countries. Canadian exports to the latter countries fell sharply between the third quarters of 1961 and 1962, while imports rose more moderately.

Between the first three quarters of 1961 and 1962, net payments on non-merchandise transactions declined a little from \$823 million to \$799 million. A much larger gain in receipts on travel account from \$397 million to \$458 million than in payments from \$517 million to \$529 million contributed \$49 million towards reducing the deficit.

It is interesting to note that the improvements in the travel balances for the first three quarters of both 1961 and 1962 have occurred entirely vis-à-vis the United States. Between the three quarters of 1960 and 1962, receipts from American visitors climbed \$108 million, while Canadian travel expenditures in the United States declined \$20 million. Over the same period, receipts from overseas visitors were relatively unchanged while expenditures by Canadians abroad increased nearly \$50 million. Reductions of more modest proportions occurred in net payments of inheritances and migrants' funds, miscellaneous income and official contributions. Moderating this tendency to a lower deficit, however, were larger net payments on freight, interest and dividends, and business services. Gold production available for export remained unchanged at \$124 million. The percentage shares of the total "invisible" deficit accounted for by interest and dividends, travel expenditures, freight and business services in the 9 months of 1962 (corresponding estimates for the three quarters of 1961 being shown parenthetically) were respectively as follows: 53(50), 9 (15), 10 (6) and 23 (18).

Quarterly Current Account Balances
(millions of dollars)

	<u>I Q</u>	<u>II Q</u>	<u>III Q</u>	<u>IV Q</u>
<u>United States</u>				
1960	- 343	- 449	- 165	- 404
1961	- 433	- 435	- 151	- 367
1962	- 353	- 427	- 90	
<u>United Kingdom</u>				
1960	+ 28	+ 12	+ 48	+ 78
1961	+ 39	+ 27	+ 42	+ 79
1962	+ 1	+ 41	+ 49	
<u>Other Countries</u>				
1960	- 11	- 40	- 10	+ 13
1961	+ 57	+ 97	+ 47	+ 16
1962	- 1	+ 9	- 20	

In a comparison of the 9 months of 1961 and 1962 the bilateral breakdown of the change in the current account balance was similar to that of the third quarters of the two years. Canada's deficit in current transactions with the United States was cut nearly \$150 million, while the surplus with the United Kingdom was reduced moderately and the positive balance of about \$200 million with the Other Countries was turned into a deficit of \$12 million in the three quarters of 1962. Nearly 20 per cent of this deterioration originated from transactions with the Rest of the Sterling Area, 30 per cent with the other OECD Countries and 50 per cent with the remaining countries.

The current deficit with the United States for the 9 months of 1962 of \$870 million was 15 per cent smaller than the imbalance of \$1,019 million for the same period of 1961. Nearly two-thirds of this improvement lay with merchandise trade and the remainder with service transactions. Merchandise exports grew 20 per cent from

\$2,311 million to \$2,769 million, while imports advanced 13 per cent from \$2,810 million to \$3,174 million. Exports of iron ore to the United States increased more than \$70 million and of other metals and minerals (including nickel) over \$90 million. About \$85 million more petroleum and natural gas was shipped in the 9 months of 1962. Other examples of less sizable gains included lumber, pulp and aircraft, while exports of uranium dropped more than \$20 million. On the basis of detailed statistics for the first six months, imports of steel products, which include machinery and automobile parts, were higher in 1962 by more than \$150 million, or 20 per cent, and agricultural products, non-ferrous metal products and miscellaneous commodities (including aircraft) were above the first half of 1961 totals respectively by \$25 million, \$45 million and about \$80 million.

The decline of \$55 million in the "invisible" deficit with the United States from \$520 million to \$465 million between the first three quarters of 1961 and 1962 was made up largely of an improvement of \$80 million in the travel account balance, with an offset of \$30 million provided by larger net payments for business services. Much smaller and offsetting changes were recorded in the balances of shipping services, government expenditures and miscellaneous income.

Both exports to and imports from the United Kingdom were relatively stable between the 9 months of 1961 and 1962. Exports were down a shade from \$676 million to \$672 million, while imports edged up a little from \$438 million to \$441 million. Small declines in shipments of many commodities in the inedible crude materials group added up to a fall of \$22 million. Larger exports, on the other hand, of grains, bean products, canned fish, tobacco and some other commodities accounted for an increase of \$24 million. On the basis of incomplete import returns for the period under review in 1962, moderate changes covering many commodities were largely offsetting. Deliveries of aircraft from the United Kingdom during the nine months of 1961 had been reflected in the balance of payments previously as progress payments were made under contract.

As indicated before, about one-half of the sharp negative change from a surplus with Other Countries of about \$200 million to a deficit of \$12 million in the first three quarters of 1962 occurred in transactions with the countries other than those in the Rest of the Sterling Area and in the other OECD countries. Canadian exports to each of the three component groups of countries declined, while imports into Canada increased in varying degrees. The resulting decline of \$192 million in the merchandise trade surplus accounted for 90 per cent of the deterioration of the current account balance with the Other Countries, as the rise in net payments on service transactions amounted to some \$21 million. Shipments of Canadian commodities were lower to the U.S.S.R., Czechoslovakia, Japan and Cuba among other destinations. Wheat dominated the decline in exports to the Eastern European countries above as it did also in the case of a rise in exports to Mainland China in the three quarters of 1962.

Summary of Current Transactions with the United States,
United Kingdom and Other Countries, 1961 and 1962 and Change
Between the Periods
(millions of dollars)

<u>Third Quarter</u>	<u>All Countries</u>			<u>United States</u>		
	1961	1962	Change	1961	1962	Change
Merchandise exports (adjusted)	1,557	1,628	+ 71	864	962	+ 98
Merchandise imports (adjusted)	1,419	1,570	+ 151	937	1,045	+ 108
Balance on merchandise trade	+ 138	+ 58	- 80	- 73	- 83	- 10
Other current receipts	601	652	+ 51	466	515	+ 49
Other current payments	801	771	- 30	544	522	- 22
Balance on non-merchandise transactions	- 200	- 119	+ 81	- 78	- 7	+ 71
Current account balance	- 62	- 61	+ 1	- 151	- 90	+ 61

<u>January to September</u>						
Merchandise exports (adjusted)	4,270	4,644	+ 374	2,311	2,769	+ 458
Merchandise imports (adjusted)	4,157	4,636	+ 479	2,810	3,174	+ 364
Balance on merchandise trade	+ 113	+ 8	- 105	- 499	- 405	+ 94
Other current receipts	1,396	1,486	+ 90	1,004	1,109	+ 105
Other current payments	2,219	2,285	+ 66	1,524	1,574	+ 50
Balance on non-merchandise transactions	- 823	- 799	+ 24	- 520	- 465	+ 55
Current account balance	- 710	- 791	- 81	- 1,019	- 870	+ 149

<u>Third Quarter</u>	<u>United Kingdom</u>			<u>Other Countries</u>		
	1961	1962	Change	1961	1962	Change
Merchandise exports (adjusted)	236	245	+ 9	457	421	- 36
Merchandise imports (adjusted)	145	145	-	337	380	+ 43
Balance on merchandise trade	+ 91	+ 100	+ 9	+ 120	+ 41	- 79
Other current receipts	53	52	- 1	82	85	+ 3
Other current payments	102	103	+ 1	155	146	- 9
Balance on non-merchandise transactions	- 49	- 51	- 2	- 73	- 61	+ 12
Current account balance	+ 42	+ 49	+ 7	+ 47	- 20	- 67

<u>January to September</u>						
Merchandise exports (adjusted)	676	672	- 4	1,283	1,203	- 80
Merchandise imports (adjusted)	438	441	+ 3	909	1,021	+ 112
Balance on merchandise trade	+ 238	+ 231	- 7	+ 374	+ 182	- 192
Other current receipts	150	149	- 1	242	228	- 14
Other current payments	280	289	+ 9	415	422	+ 7
Balance on non-merchandise transactions	- 130	- 140	- 10	- 173	- 194	- 21
Current account balance	+ 108	+ 91	- 17	+ 201	- 12	- 213

Capital Movements

<u>Summary</u>	1961				1962		
	I Q	II Q	III Q	IV Q	I Q	II Q	III Q
	(millions of dollars)						
Capital movements in long term forms	+ 186	+ 270	+ 199	+ 135	+ 35	- 13	+ 247
Capital movements in short term forms(1)	+ 256	+ 92	- 199	+ 272	- 46	- 203	+ 500
Balance on goods and services	- 337	- 311	- 62	- 272	- 353	- 377	- 61
Total of above	+ 105	+ 51	- 62	+ 135	- 364	- 593	+ 686
Special international financial assistance	-	-	-	-	-	+ 707	-
Change in official holdings of gold and foreign exchange(2)	- 105	- 51	+ 62	- 135	+ 364	- 114	- 686

(1) Excluding change in official holdings of gold and foreign exchange and special international financial assistance.
 (2) Increase (-).

As the summary shows, during the second quarter of 1962 Canada found it necessary to use some \$593 million of the official holdings of gold and foreign exchange which was, however, more than replenished by special international financial assistance extended to Canada in this quarter. In the third quarter, Canada was able to add \$686 million to the holdings. These unprecedented changes represented a swing of \$1,279 million from the second to the third quarters. The statement below shows the principal groups of transactions contributing to the swing.

<u>Item</u>	1962		
	II Q	III Q	Difference
	(millions of dollars)		
Balance on goods and services	- 377	- 61	+ 316
Capital movements in long term forms	- 13	247	+ 260
foreign currency holdings of residents(-)	- 245	257	+ 502
other short term forms excluding official reserve movements	42	243	+ 201
TOTAL	- 593	686	+ 1,279

Four features stand out. First, the substantial improvement in the current account deficit, which is seasonally characteristic.

Second, the re-emergence of a significant capital inflow in long term forms, reflecting a variety of investment and borrowing transactions, and including some take-over money and a loan prepayment to Canada by France. A great many factors undoubtedly influenced this group of transactions.

Among them the new exchange level for the Canadian dollar would enhance the attraction of investment in Canada, interest differentials were attractive, the reserve position of France enabled her to make prepayments to the United States and Canada, and confidence in Canada's foreign exchange position was restored by the measures taken in the second quarter and by subsequent developments.

The effects of the crisis of confidence in the second quarter were also evident in the third feature, the movement from Canadian to foreign currency in the second quarter, and the reverse movement in the third quarter, of approximately a quarter of a billion dollars of Canadian bank balances and other short term funds, amounting in all to a swing of more than half a billion dollars.

And fourth, there was a smaller but none the less significant change in capital movements in other short term forms, of which the largest part represented borrowing in foreign currency by residents of Canada in the third quarter.

It is not possible to separate quantitatively the effects of changing interest rate differentials, exchange rate expectations, and other developments and factors. Inferences from capital movements about the influences of exchange rate changes, actual or anticipated, are at times misleading because the existence of swap and other forward market facilities makes possible the creation or transfer of exchange positions between various sectors of the economy without reflection on the statements.

Nevertheless, it seems clear from analysis of the data available that a major part of the movements both from Canada in the second quarter and to it in the third represented the movement of Canadian capital. There is little evidence that the taking of short term Canadian dollar positions by non-residents contributed in any significant measure to the growth of Canada's official holdings of gold and foreign exchange in the quarter. This was in sharp contrast to the situation twelve years earlier when increases of official holdings of gold and foreign exchange (including float), represented a capital outflow of \$696 million, largely representing a run to the Canadian dollar by non-residents.

DIRECT INVESTMENT The net inflow of foreign capital for direct investment in foreign-controlled enterprises in Canada is estimated to have risen sharply from a revised figure of \$80 million in the second quarter to \$135 million in the third. At this level it was well above each of the preceding four quarters and was above the quarterly average for 1961.

Major variations in direct investment flows can be caused by transactions involving the acquisition of existing concerns or interests, or through refinancing operations etc., having no counterpart in current new capital formation in Canada. These transactions have been larger in 1962 than in 1961. If estimates of them are excluded from the totals, the remaining net inflows rose progressively through the three quarters of 1962, but averaged some 20 per cent below the rate through 1961.

Industrially, inflows to the petroleum and natural gas industry more than doubled from the levels of the first and second quarters, accounting for a substantially higher proportion of the net movement, with takeover money playing an important role in the increase. Inflows to mining, particularly iron ore projects, were also larger in value, but did not account for as large a share of the total as in the second quarter. There were also inflows to manufacturing and other industries in the third quarter; outflows had been substantial in the second quarter resulting in little net movement to this group.

The changing corporate structure in the Canadian petroleum industry has given overseas countries an enlarged role as a source of capital, and has contributed to a rising proportion of the net inflow of direct investment capital from overseas. The share of United States investors in the net inflow is estimated to have fallen in the successive quarters of 1962 from about four-fifths, to three-quarters, to two-thirds.

Net outflows of Canadian capital for direct investment abroad are placed at \$20 million in the third quarter, down \$5 million from the second and \$10 million from the first.

SECURITY TRANSACTIONS During the third quarter of 1962 all transactions in portfolio securities between Canada and other countries led to a net capital inflow of \$38 million. This was somewhat lower than the figure of \$55 million recorded for the second quarter which, however, included some \$125 million of new corporate borrowing applied to the refinancing of direct investment and other capital transactions. In the first quarter there was an outflow of \$53 million, while in the third quarter of 1961 there was an inflow of \$82 million.

Yields on Representative
Long Term Government Bonds

Last Wednesday		Canada(1)	United States(2)	Differential
1960	Dec.	5.41	3.80	1.61
1961	Mar.	5.18	3.80	1.38
	June	4.99	3.97	1.02
	Sept	5.02	4.03	.99
	Dec.	4.96	4.11	.85
1962	Mar.	4.86	3.99	.87
	June	5.23	3.91	1.32
	Sept.	5.38	3.91	1.47

Sales by Canadians of outstanding Canadian bonds rose sharply to \$38 million in the third quarter. This was up \$34 million from the second quarter and was the highest quarterly level since early 1956. Net sales were made up mainly of Government of Canada direct and guaranteed issues and were on balance entirely to the United States as there were repurchases from residents of overseas countries.

While net sales to non-residents of outstanding bonds were rising, net repurchases from them of outstanding Canadian stocks were falling. The capital outflow for these repurchases fell from \$46 million in the second quarter to \$25 million in the third. The change occurred entirely in transactions with overseas investors, net repurchases from them falling from \$41 million to \$20 million.

1) 3 3/4/15 Jan. 75-78
2) 3 1/4/15 June 78-83

Sales to non-residents of new issues of Canadian securities produced \$78 million in the third quarter compared with \$52 million in the first and \$200 million in the second quarter, but it has already been noted that the latter figure included some \$125 million of special refinancing. Municipal issues accounted for \$31 million of the third quarter inflow, with corporate, provincial and Government of Canada bonds accounting for most of the rest. Retirements of foreign-held Canadian issues totalled \$44 million, led by some \$20 million of corporate and \$11 million of Government of Canada bonds.

Price of United States Stocks in terms of
Canadian Stocks

Year	Month	At Cdn. \$1 = U.S. \$1	At market exchange rate
1961	December	100	100
1962	March	98	99
	June	94	98
	September	96	99

Based on "DBS Investors" and "Standard and Poor's 500" Indexes.

The acquisition by residents of Canada of foreign securities fell to \$9 million in the third quarter, a sharp reduction from the outflows for this purpose of \$27 million and \$35 million in the first and second quarters respectively. Canadians acquired some \$14 million of foreign equities in the quarter but sold other foreign securities.

The reduced outflows covering the purchase of Canadian and foreign stocks by residents from non-residents were consistent with the relative improvement of Canadian stock prices in relation to those in the United States.

OFFICIAL TRANSACTIONS

Official loan transactions in the third quarter include Canada's subscription of \$6,240,000 in United States funds for part of an issue of 2% 25-year bonds of the United Nations. This represented a capital outflow in Canadian dollar terms of \$7 million.

During July the Government of France paid in advance of maturity \$67.6 million representing one-half of the remaining debt owed by France to Canada for credits received immediately following World War II. France has been accelerating the repayments of foreign loans and credits received in the post war period, and a simultaneous prepayment was made to the United States. The total credits extended by Canada to France as a part of the post-war Canadian programme to assist in the reconstruction of the economies of various European countries amounted to \$254.8 million. Repayments by France to the end of March 1962 had reduced the amount outstanding to \$135.2 million.

Other official capital transactions included elsewhere in the estimates of the balance of the payments for the third quarter are the participation of non-residents in new issues of Government of Canada bonds and treasury bills, retirements of these securities, and changes in official holdings of gold and foreign exchange. Included among other capital movements are transactions with international financial agencies and the export credits extended under government guarantee, some of which now involve direct government financing.

OTHER CAPITAL MOVEMENTS

Canadian dollar holdings of non-residents fell sharply in the third quarter. This capital outflow, amounting to \$58 million, more than offset the inflow reflected by increased holdings of \$34 million in the second quarter. Most of the decline was in deposits, and foreign holdings of Government of Canada treasury bills fell only \$8 million. Over the first three quarters of 1962, non-residents increased their holdings of treasury bills by \$59 million but decreased their deposits in Canadian dollars by \$114 million.

The major part of the third quarter reduction in Canadian dollar holdings of foreigners was attributable to residents of the United States whose holdings fell by \$43 million. Residents of the United Kingdom and other overseas countries also reduced their holdings during the quarter.

Turning to the final category of the basic balance of payments presentation there is recorded a capital inflow of \$591 million, following an outflow of \$367 million in the second quarter. Both these totals were extraordinarily large. The largest figure recorded in any previous quarter since the commencement of official quarterly estimates of capital movements in 1950 was \$261 million, reached in the first quarter of 1961. In the speculative atmosphere of the third quarter of 1950 the total reached only \$153 million, but the underlying conditions then were greatly different.

Details of the quarterly movements for the last seven quarters are given in a statement on this page. This shows the return to Canada of some \$257 million of Canadian-owned bank balances and other short term funds in foreign currencies. The outward movement of these funds in the second quarter had amounted to \$245 million. These movements were unprecedented in size.

Among capital outflows in the third quarter was the payment by Canada to the International Bank for Reconstruction and Development of nearly \$7 million necessary, because of the reduced exchange value of the Canadian dollar, to maintain the gold value of the subscriptions in Canadian dollars to the capital of the Bank. A small inflow of \$1 million was reflected in increased short term holdings of Canadian dollars by international financial agencies, leaving a net outflow of \$6 million from transactions with these institutions in the quarter.

Other long term transactions gave rise to a capital inflow of \$33 million in the third quarter, compared with an outflow of \$130 million in the preceding quarter which, however, reflected mainly repayments of bank loans financed from the sale to non-residents of a new corporate bond issue. Mortgage and bank borrowing contributed to the net inflow which was reduced by some long and medium

Change in Canadian dollar holdings
of foreigners
(millions of dollars)

	Quarter	Total	Treasury Bills	Deposits etc.
1960	II	- 2	- 10	+ 8
	III	+ 45	+ 27	+ 18
	IV	+ 79	+ 47	+ 32
1961	I	- 5	+ 32	- 37
	II	- 72	- 76	+ 4
	III	- 1	- 34	+ 33
	IV	+ 44	+ 18	+ 26
1962	I	- 31	+ 17	- 48
	II	+ 34	+ 50	- 16
	III	- 58	- 8	- 50

term export financing.

Further resources were made available to Canada through borrowings from non-residents by finance companies and net sales of minor amounts of commercial and finance paper, amounting in all to \$50 million in the third quarter. The second quarter movement in these liabilities produced an inflow of \$8 million.

Composition of "Other Capital Movements"
(millions of dollars)

Transactions with all countries	1961				1962		
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter
International Financial Agencies(1)							
Canadian dollar subscriptions	-	- 9	-	- 8	- 22	- 13	- 7
Short-term Canadian dollar holdings	2	-	- 52	7	33	54(2)	1
Other long-term capital transactions	-	- 22	12	22	5	- 130	33
Bank balances and other short-term funds abroad (excluding official reserves)	127	54	- 140	72	49	- 245	257
Borrowings from non-residents by finance companies, and non-resident holdings of commercial paper	71	23	- 1	19	28	8	50
All other transactions including changes in loans and accounts receivable and payable(3)	61	96	- 5	138	- 103	- 41	257
TOTAL (Item D 17)	261	142	- 186	250	- 10	- 367	591

(1) International Bank for Reconstruction and Development, International Monetary Fund, and International Development Association.

(2) Excludes counterpart of special financial assistance to Canada which is included in D 15.

(3) Includes also balancing item representing difference between direct measurements of current and capital accounts.

NOTES: The figures in this statement are based on incomplete data, and make use in some cases of statistics compiled in other countries. The items are therefore subject to greater possible error than others in the balance of payments statement.

A minus sign indicates an outflow of capital from Canada.

The final category of the statement covers all other transactions including changes in loans and accounts receivable and payable. It includes also the balancing item representing the difference between direct measurements of the current and capital accounts. Following outflows of \$103 million and \$41 million in the first and second quarters respectively, this group of movements showed an inflow of \$257 million in the third quarter. The largest part of this represented borrowings of foreign currencies by residents.

OFFICIAL HOLDINGS OF GOLD AND FOREIGN EXCHANGE The capital export reflected in the growth of Canada's gold and foreign exchange holdings totalled \$686 million in the third quarter, more than offsetting the use by Canada of \$593 million of these holdings in the second quarter. All of the movement in the third quarter reflected changes in holdings of gold or United States dollars.

Within the limits applicable to the exchange rate established on May 3, the Canadian dollar tended to strengthen, with the closing quotation for the United States dollar in Canada declining each month from the end of May. The trading range during the third quarter was a little over one-half cent.

Official Holdings of Gold and United States dollars (millions of United States dollars)				United States Dollar in Canada (Canadian cents)					
<u>End of</u>		<u>Amount</u>	<u>Change in Period</u>	<u>Period</u>		<u>High</u>	<u>Low</u>	<u>Close</u>	<u>Noon Average</u>
1961	II Q	1,985	+ 50	1961	II Q	103.53	98.59	103.50	99.42
	III Q	1,924	- 61		III Q	104.00	103.00	103.00	103.21
	IV Q	2,056	+ 132		IV Q	104.37	103.00	104.34	103.61
1962	I Q	1,709	- 346	1962	I Q	105.03	104.34	105.00	104.77
	II Q	1,809*	+ 99*		II Q	109.00	104.87	108.19	107.42
	III Q	2,445*	+ 636		III Q	108.19	107.66	107.66	107.78
1962	July	2,114*	+ 306	1962	July	108.19	107.81	107.81	107.89
	Aug.	2,331*	+ 216		Aug.	107.84	107.72	107.72	107.76
	Sept.	2,445*	+ 114		Sept.	107.72	107.66	107.66	107.68

* Includes (+) 650 special international financial assistance.

On later pages of this report there are reproduced Table I and part of Table IV A of the forthcoming report "The Canadian Balance of International Payments, 1961 and International Investment Position", (D.B.S. Catalogue No. 67-201). These give revised annual estimates of the Canadian balance of international payments for 1960 and 1961 with bilateral detail, and revised quarterly estimates for 1960.

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

	Revised estimates for 1960	I	II	III	IV
A	Current Receipts				
1	Merchandise exports (adjusted)	1,281	1,321	1,398	1,392
3	Gold production available for export	44	35	42	41
4	Travel expenditures	36	91	221	72
5	Interest and dividends	34	39	35	65
6	Freight and shipping	102	115	118	107
7	Inheritances and immigrants' funds	18	29	31	24
11	All other current receipts	100	107	111	101
12	Total Current Receipts	1,615	1,737	1,956	1,802
B	Current Payments				
1	Merchandise imports (adjusted)	1,324	1,508	1,316	1,392
4	Travel expenditures	119	168	213	127
5	Interest and dividends	145	161	157	190
6	Freight and shipping	114	137	141	141
7	Inheritances and emigrants' funds	38	43	50	50
9	Official contributions	10	10	17	24
11	All other current payments	191	187	189	191
12	Total Current Payments	1,941	2,214	2,083	2,115
	Balance on Merchandise Trade	- 43	- 187	+ 82	-
	Balance on Other Transactions, excluding B 9	- 273	- 280	- 192	- 289
	Official Contributions	- 10	- 10	- 17	- 24
	Current Account Balance	- 326	- 477	- 127	- 313
C	Capital Account				
	Direct Investment				
1	Direct investment in Canada	+ 205	+ 147	+ 159	+ 139
2	Direct investment abroad	- 7	- 13	- 21	- 9
	Canadian Securities				
3a	Trade in outstanding bonds and debentures	+ 19	+ 15	- 19	- 12
3b	Trade in outstanding common and preference stocks	+ 13	+ 25	+ 10	+ 3
4	New issues	+ 212	+ 143	+ 52	+ 40
5	Retirements	- 58	- 80	- 34	- 93
	Foreign Securities				
6	Trade in outstanding issues	+ 7	- 5	+ 3	- 24
7	New issues	- 3	- 2	- 3	- 10
8	Retirements	+ 6	+ 3	+ 7	+ 2
	Loans by Government of Canada				
9	Drawings	-	-	-	-
10,11	Repayments	-	+ 7	-	+ 25
13	Subscriptions in gold and U.S. dollars to international financial agencies	-	-	- 1	- 2
14	Change in Canadian dollar holdings of foreigners	- 2	- 2	+ 45	+ 79
16	Change in official holdings of gold and foreign exchange (increase, minus)	+ 11	+ 82	- 40	- 14
17	Other capital movements	- 77	+ 157	- 31	+ 189
	Net Capital Movement	+ 326	+ 477	+ 127	+ 313

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports on "The Canadian Balance of International Payments".

11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance transactions, and business services.

12) A minus sign indicates an outflow of capital from Canada.

12) Exclusive of undistributed profits.

17) This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1962 are preliminary and

		1960		1961	
		III	IV	I	II
A	Current Receipts				
1	Merchandise exports (adjusted)	1,398	1,392	1,266	1,447
3	Gold production available for export	42	41	41	42
4	Travel expenditures	221	72	39	103
5	Interest and dividends	35	65	36	59
6	Freight and shipping	118	107	102	120
7	Inheritances and immigrants' funds	31	24	19	28
11	All other current receipts	111	101	103	103
12	Total Current Receipts	1,956	1,802	1,606	1,902
B	Current Payments				
1	Merchandise imports (adjusted)	1,316	1,392	1,260	1,478
4	Travel expenditures	213	127	129	168
5	Interest and dividends	157	190	204	174
6	Freight and shipping	141	141	116	142
7	Inheritances and emigrants' funds	50	50	35	43
9	Official contributions	17	24	13	8
11	All other current payments	189	191	186	200
12	Total Current Payments	2,083	2,115	1,943	2,213
	Balance on Merchandise Trade	+ 82	-	+ 6	- 31
	Balance on Other Transactions, excluding B 9	- 192	- 289	- 330	- 272
	Official Contributions	- 17	- 24	- 13	- 8
C	Current Account Balance	- 127	- 313	- 337	- 311
D	Capital Account				
	Direct Investment				
1	Direct investment in Canada	+ 159	+ 139	+ 140	+ 158
2	Direct investment abroad	- 21	- 9	- 29	- 21
	Canadian Securities				
3a	Trade in outstanding bonds and debentures	- 19	- 12	+ 31	+ 34
3b	Trade in outstanding common and preference stocks	+ 10	+ 3	+ 13	+ 32
4	New issues	+ 52	+ 40	+ 101	+ 190
5	Retirements	- 34	- 93	- 73	- 92
	Foreign Securities				
6	Trade in outstanding issues	+ 3	- 24	+ 3	-
7	New issues	- 3	- 10	- 5	- 18
8	Retirements	+ 7	+ 2	+ 2	+ 2
	Loans by Government of Canada				
9	Drawings	-	-	-	-
10,11	Repayments	-	+ 25	+ 3	+ 7
13	Subscriptions in gold and U.S. dollars to international financial agencies	- 1	- 2	-	-
14	Change in Canadian dollar holdings of foreigners	+ 45	+ 79	- 5	- 72
15	Special international financial assistance	-	-	-	-
16	Change in official holdings of gold and foreign exchange (increase, minus)	- 40	- 14	- 105	- 51
17	Other capital movements	- 31	+ 189	+ 261	+ 142
E	Net Capital Movement	+ 127	+ 313	+ 337	+ 311

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports on B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance transactions, and business services.

BALANCE OF INTERNATIONAL PAYMENTS

ata for 1961 are subject to revision.

1961		1962			Annual Totals		Four quarters ended Sept. 30, 1962		
III	IV	I	II	III	1959	1960	1961		
(millions of dollars)									
1,557	1,619	1,396	1,620	1,628	5,150	5,392	5,889	6,263	A
41	38	43	42	39	148	162	162	162	1
255	85	43	126	289	391	420	482	543	3
40	74	31	50	44	182	173	209	199	4
135	129	105	129	131	420	442	486	494	5
31	25	19	32	42	109	102	103	118	6
99	98	106	104	107	392	419	403	415	7
2,158	2,068	1,743	2,103	2,280	6,792	7,110	7,734	8,194	11
1,419	1,559	1,401	1,664	1,570	5,572	5,540	5,716	6,194	12
220	125	141	188	200	598	627	642	654	B
170	222	179	206	164	671	653	770	771	1
151	159	126	157	158	525	533	568	600	4
49	47	38	44	49	165	181	174	178	5
15	20	6	7	4	72	61	56	37	6
196	208	205	214	196	693	758	790	823	7
2,220	2,340	2,096	2,480	2,341	8,296	8,353	8,716	9,257	9
+ 138	+ 60	- 5	- 44	+ 58	- 422	- 148	+ 173	+ 69	11
- 185	- 312	- 342	- 326	- 115	-1,010	-1,034	-1,099	-1,095	12
- 15	- 20	- 6	- 7	- 4	- 72	- 61	- 56	- 37	
- 62	- 272	- 353	- 377	- 61	-1,504	-1,243	- 982	-1,063	C
+ 117	+ 100	+ 110	+ 80	+ 135	+ 550	+ 650	+ 515	+ 425	D
- 12	- 18	- 30	- 25	- 20	- 80	- 50	- 80	- 93	1
- 12	+ 10	- 3	+ 4	+ 38	+ 91	+ 3	+ 63	+ 49	2
-	- 5	- 7	- 46	- 25	+ 110	+ 51	+ 40	- 83	3a
+ 125	+ 117	+ 52	+ 200	+ 78	+ 707	+ 447	+ 533	+ 447	3b
- 29	- 103	- 68	- 68	- 44	- 258	- 265	- 297	- 283	4
+ 2	- 10	- 31	- 37	- 9	- 32	- 19	- 5	- 87	5
- 7	- 7	- 1	- 3	- 5	- 13	- 18	- 37	- 16	6
+ 3	+ 2	+ 5	+ 5	+ 5	+ 12	+ 18	+ 9	+ 17	7
-	-	-	-	- 7	- 1	-	-	- 7	8
-	+ 27	+ 3	+ 7	+ 68	+ 34	+ 32	+ 37	+ 105	9
-	-	-	-	-	- 59	- 3	-	-	10,11
- 1	+ 44	- 31	+ 34	- 58	+ 13	+ 120	- 34	- 11	13
-	-	-	+ 707	-	-	-	-	+ 707	14
+ 62	- 135	+ 364	- 114	- 686	+ 70	+ 39	- 229	- 571	15
- 186	+ 250	- 10	- 367	+ 591	+ 360	+ 238	+ 467	+ 464	16
+ 62	+ 272	+ 353	+ 377	+ 61	+1,504	+1,243	+ 982	+1,063	17
E									

NOTES:

1 A minus sign indicates an outflow of capital from Canada.

1,2 Exclusive of undistributed profits.

17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.

TABLE 1. Current and Capital Account of the Canadian Balance of International Payments, 1960 and 1961

No.	Account	All countries		United States		United Kingdom		Other sterling area		Other OEEC countries		All other countries	
		1960	1961 ^P	1960	1961 ^P	1960	1961 ^P	1960	1961 ^P	1960	1961 ^P	1960	1961 ^P
millions of dollars													
A	Current receipts:												
1	Merchandise exports (adjusted)	5,392	5,889	3,040	3,213	924	924	340	331	591	618	497	803
2	Mutual Aid to NATO countries	43	35	..	..	..	..	..	..	..	..	..	..
3	Gold production available for export	162	162	162	162	—	—	—	—	—	—	—	—
4	Travel expenditures	420	482	375	435	20	21	6	7	13	13	6	6
5	Interest and dividends	173	209	102	109	32	34	18	43	12	13	9	10
6	Freight and shipping	442	486	220	230	93	100	31	27	57	67	41	62
7	Inheritances and immigrants' funds	102	103	50	51	26	25	6	6	15	15	5	6
11	All other current receipts	419	403	330	310	50	49	8	10	19	21	12	13
12	Total current receipts	7,153	7,769	4,279	4,510	1,145	1,153	409	424	707	747	570	900
B	Current payments:												
1	Merchandise imports (adjusted)	5,540	5,716	3,713	3,828	611	593	284	298	371	416	561	581
4	Travel expenditures	627	642	462	459	70	71	14	21	65	72	16	19
5	Interest and dividends	653	770	531	642	83	86	1	1	36	39	2	2
6	Freight and shipping	533	568	324	333	89	93	4	4	99	114	17	24
7	Inheritances and emigrants' funds	181	174	141	134	25	23	2	4	11	11	2	2
9	Official contributions	61	56	—	—	3	—	42	49	4	1	12	6
10	Mutual Aid to NATO countries	43	35	..	..	..	..	..	..	..	..	..	..
11	All other current payments	758	790	469	500	98	100	19	20	135	125	37	45
12	Total current payments	8,396	8,751	5,640	5,896	979	966	366	397	721	778	647	679
	Balance on merchandise trade	- 148	+ 173	- 673	- 615	+ 313	+ 331	+ 56	+ 33	+ 220	+ 202	- 64	+ 222
	Balance on other transactions, excluding B9	- 1,034	- 1,099	- 688	- 771	- 144	- 144	+ 29	+ 43	- 230	- 232	- 1	+ 5
	Official contributions	- 61	- 56	—	—	- 3	—	- 42	- 49	- 4	- 1	- 12	- 6
C	Current account balance	- 1,243	- 982	- 1,361	- 1,386	+ 166	+ 187	+ 43	+ 27	- 14	- 31	- 77	+ 221
D	Capital account:												
	Direct investment:												
1	Direct investment in Canada	+ 650	+ 515	+ 446	+ 335	+ 115	+ 127	+ 6	+ 2	+ 82	+ 49	+ 1	+ 2
2	Direct investment abroad	- 50	- 80	- 19	- 26	- 14	- 14	- 3	- 29	- 16	+ 7	+ 2	- 18
	Canadian securities:												
3a	Trade in outstanding bonds and debentures	+ 3	+ 63	- 9	+ 76	- 13	- 12	—	—	+ 25	+ 1	—	- 2
3b	Trade in outstanding common and preference stocks	+ 51	+ 40	+ 56	+ 120	- 17	- 61	—	—	+ 12	- 19	—	—
4	New issues	+ 447	+ 533	+ 381	+ 473	+ 27	+ 25	—	—	+ 38	+ 20	+ 1	+ 15
5	Retirements	- 265	- 297	- 214	- 215	- 27	- 42	—	—	- 23	- 23	- 1	- 17
	Foreign securities:												
6	Trade in outstanding issues	- 19	- 5	+ 5	+ 6	- 2	- 9	—	—	- 1	- 2	- 21	—
7	New issues	- 18	- 37	- 13	- 18	—	- 2	- 1	- 13	—	—	- 4	- 4
8	Retirements	+ 18	+ 9	+ 12	+ 5	—	—	+ 1	+ 1	—	—	+ 5	+ 3
	Loans by Government of Canada:												
9	Drawings	—	—	—	—	—	—	—	—	—	—	—	—
10	Repayment of post-war loans	+ 32	+ 37	—	—	+ 17	+ 17	—	+ 5	+ 15	+ 15	—	—
13	Subscriptions in gold and U.S. dollars to international financial agencies	- 3	—	- 3	—	—	—	—	—	—	—	—	—
14	Change in Canadian dollar holdings of foreigners	+ 120	- 34	+ 60	- 23	+ 9	+ 1	- 3	+ 4	+ 7	+ 21	+ 47	- 37
16	Change in official holdings of gold, U.S. dollars and sterling (increase, minus) ..	+ 39	- 229	+ 39	- 227	—	- 2	—	—	—	—	—	—
17	Other capital movements	+ 238	+ 467	+ 285	+ 682	- 36	+ 23	- 9	- 7	+ 18	- 17	- 20	- 214
E	Net capital movement	+ 1,243	+ 982	+ 1,026	+ 1,188	+ 59	+ 51	- 9	- 37	+ 157	+ 52	+ 10	- 272
G	Balance settled by exchange transfers	—	—	+ 335	+ 198	- 225	- 238	- 34	+ 10	- 143	- 21	+ 67	+ 51
	Total financing of current account balance (item C)	+ 1,243	+ 982	+ 1,361	+ 1,386	- 166	- 187	- 43	- 27	+ 14	+ 31	+ 77	- 221

Notes:

A2, B10 Mutual Aid is not included in figures for countries or areas, but is included in total receipts and total payments with all countries.

D A minus sign indicates an outflow of capital from Canada. Some capital transactions with other sterling area are included under the United Kingdom, and with other overseas countries under the United States.

D13 International Bank for Reconstruction and Development, International Monetary Fund, International Finance Corporation and International Development Association.

D17 Also includes balancing item representing unrecorded capital movements and errors and omissions.

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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FOURTH QUARTER 1962, AND

PRELIMINARY ESTIMATES FOR THE YEAR 1962

Although the main outlines of Canada's balance of payments in 1962 have some features in common with 1961, major developments occurred during the year. In the first half of the year there was the rapid loss of foreign exchange holdings which led to the exchange crisis in June and to the series of official measures which were introduced in the second quarter with the object of stabilizing the international exchange value of the Canadian dollar and Canada's international transactions. In the first half of the year there had been net outflows of capital and a growing current account deficit. In the second half of the year, in contrast, there was a rapid restoration in official holdings of exchange accompanying large capital inflows and a contraction in the size of the current account deficit.

Summary Statement

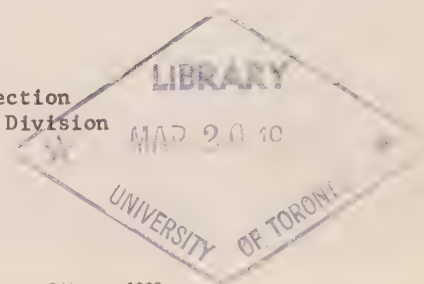
	First half		Second half		Year	
	1961	1962	1961	1962	1961	1962
millions of dollars						
Merchandise trade balance	- 25	- 52	+ 198	+ 207	+ 173	+ 155
Deficit on non-merchandise transactions	- 623	- 643	- 532	- 360	- 1,155	- 1,003
Current account deficit	- 648	- 695	- 334	- 153	- 982	- 848
Capital movements: (1)						
Long-term forms	+ 456	+ 11	+ 334	+ 707	+ 790	+ 718
Short-term forms	+ 348	- 273	+ 73	+ 610	+ 421	+ 337
Special international financial assistance	-	+ 707	-	- 377	-	+ 330
Change in official holdings of gold and foreign exchange(2)	- 156	+ 250	- 73	- 787	- 229	- 537

(1) Excluding change in official holdings of gold and foreign exchange and special international financial assistance.

(2) Increase (-).

Prepared in the Balance of Payments Section
National Accounts and Balance of Payments Division

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2206-502



The contraction in Canada's deficit in goods and services with other countries was to \$848 million in 1962 from \$982 million in 1961. Much of this change occurred in the fourth quarter of the year following some favourable changes in the third quarter as well. In the first half of the year the deficit was higher than in that part of the previous year whereas in the second half it had contracted to less than half of the level of the second half of 1961. In the fourth quarter the current deficit was reduced to \$119 million from \$272 million in the last year through the coincidence of a large export balance on merchandise trade and a reduction in the deficit from non-merchandise transactions.

In the year as a whole the contraction in the deficit originated entirely in a reduction of 13 per cent in net payments on account of non-merchandise transactions to \$1,003 million in 1962 from \$1,155 million in 1961. There was again an export balance from merchandise trade amounting to \$155 million in 1962 compared with \$173 million in 1961 when adjustments are made for balance of payments purposes. More than two-thirds of the above improvement in the year was from the sharp contraction in the deficit on travel account to \$50 million in 1962 from \$160 million in 1961. Other significant contributions to the improvement resulted from a smaller deficit on account of migrants' funds and a reduced volume of transfers financed by official contributions. Half of the year's improvement in the non-merchandise deficit occurred in the final quarter of the year with favourable changes distributed among each item except interest and dividends.

With exceptionally large inflows of capital in the second half of the year a larger proportion of Canada's current deficit in the full year was financed by long term forms than for several years. The concentration of over \$700 million in inflows in these forms in the second half followed the contrasting situation in the first half of the year when outflows offset most of the inflows in that period. Inflows which expanded in the second half included large borrowing through sales of new issues of government and corporate bonds and large inflows on direct investment particularly for the acquisition of Canadian enterprises. Contrasts between the half years were even greater in the area of short-term funds. Outflows in the first half of \$273 million (apart from special international financial assistance) were rapidly followed by net inflows in the second and the eventual repayment of more than half of the special financial assistance.

The total value of non-resident owned long-term investments in Canada continued to rise both through the introduction of capital from abroad and the accretion of retained earnings. The value of these investments, which at the end of 1960 was \$22.2 billion, is estimated to have risen to about \$23 1/2 billion at the end of 1961, and to have been approaching \$25 billion at the end of 1962. There are other Canadian liabilities to non-residents mainly of a short-term character, and Canada, although on balance still a major international debtor, has very sizable public and private assets abroad in a variety of forms.

Although full statistical data are not yet available the growth in Canada's "net balance of international indebtedness" appears to have been smaller than the growth in external liabilities in long-term forms. Other Canadian liabilities increased, while Canada's assets abroad grew not only because of capital outflows and retained earnings but also because of the increased value of foreign currencies in terms of Canadian funds.

Export balance on merchandise trade

With expansion in economic activity in the United States and Canada and strong demands in many overseas areas, both sides of Canada's merchandise trade were at record levels in 1962. Increases in volume represented a substantial part of the gains in each case. Other major parts of the increases in values resulted from higher prices, the effects largely of the change in the foreign exchange value of the Canadian dollar. The United States dollar averaged 106.89 cents in Canadian funds in 1962, compared with 101.34 cents in 1961, following the stabilization of the Canadian dollar announced by the Minister of Finance in May. Another influence upon Canadian imports originated in the surcharges on a wide range of imports introduced in June, with some of these surcharges being withdrawn in the fourth quarter.

The effect of trading developments in the year upon the trade balance was to retain an export balance on merchandise account for the second year in succession at annual levels which were relatively close, \$155 million in 1962 compared with \$173 million in 1961. The quarterly configuration of balances was quite different however. In the case of exports an upward trend was generally evident during the year with the highest level in the fourth quarter. With imports the trend has been less regular and when account is taken of seasonal factors the fourth quarter showed a lower level than the peak level in the third quarter. As a result of high exports coinciding with a low level of imports there was an export balance of \$138 million in the fourth quarter, more than double that in the fourth

quarter of 1961. An analysis of imports in the fourth quarter is not yet available but the level was probably influenced by the high level in the preceding quarter when business inventories were built up in Canada on a substantial scale.

The expansion in the volume of imports in 1962 was significantly less than the rises which accompanied similar upturns in Canadian economic activity in earlier cycles. This indicates more satisfaction of Canadian demands from Canadian production than formerly. Evidence of this is apparent in some areas in particular, examples of which are provided by passenger cars, iron and steel products and fuels. At the same time Canadian imports of other commodities over a wide range of industrial materials and investment and consumer goods remained exceptionally high giving rise to the unprecedented total levels in terms of value in 1962. In contrast in earlier periods of exceptionally heavy imports as in 1956 and 1957 import totals were swollen by an unusually large volume of steel, pipe, and many kinds of machinery required in large investment programmes in that period. Since then there have been large price increases in imported manufactured goods which have had the effect of maintaining many import values even though there have been declines in volume. On the other hand price increases in some primary commodities have been considerably less.

The outstanding feature of Canada's export trade in 1962 was the sharp rise in exports to the United States and the relative stability in the total to most overseas areas. The new peak in the value of shipments to the United States was some 16 per cent higher than in 1961 and more than one-third larger than the average annual value in the previous decade. Increases in the year were particularly large in exports by some of the resource industries like iron ore, petroleum and natural gas, forest products like lumber and wood pulp and metals which included nickel, copper, and aluminum. At the same time there were gains in some secondary manufactured goods of which examples are provided by machinery and aircraft. An important exception to these trends was uranium which again declined.

While exports to major overseas markets like the United Kingdom and Western Europe were maintained, there were declines to Eastern Europe associated with a drop in wheat exports. Declines in wheat exports also affected export totals to Germany, Japan and Commonwealth countries in Asia. There were also declines in sales of metals and some chemical products to overseas countries. On the other hand exports to Australia and other Commonwealth countries increased as did shipments to Communist China.

Deficit from services and other non-merchandise items

A substantial 13 per cent reduction in net payments on non-merchandise transactions from \$1,155 million to \$1,003 million was the agent that narrowed the current account deficit, as the export trade balance was slightly lower in 1962. More than 70 per cent of the amelioration in the non-merchandise deficit was attributable to the travel account, and reduced official contributions and migrants' funds combined to account for the balance of the improvement. Modest changes took place in the balances on freight and shipping, interest and dividends, and gold production available for export, while net payments on other current "invisible" transactions were unchanged.

Major Components of the Balance on Non-merchandise Transactions

	1961	1962	Change	
	millions of dollars			
Gold production available for export	162	165	+	3
Travel expenditures	- 160	- 50	+	110
Interest and dividends	- 561	- 570	-	9
Freight and shipping	- 82	- 90	-	8
Inheritances and migrants' funds	- 71	- 39	+	32
Official contributions	- 56	- 32	+	24
All other current transac- tions	- 387	- 387		-
Balance on non-merchandise transactions	- 1,155	- 1,003	+	152

A sharp improvement occurred in the deficit on the travel account as the moderate deficit of \$24 million with the United States in 1961 swung over to a sizable surplus of \$90 million in 1962, a vigorous continuation of the improving course evident over the several preceding years. This surplus with the United States, first one since 1951, was brought about by a gain in receipts of \$75 million or 17 per cent from visitors from the United States during 1962, combined with a decline of some \$39 million in expenditures by

Canadians travelling in the United States. The stabilization of the Canadian dollar at a lowered value in terms of foreign currency and the reduction about the mid-year in the privilege of duty-free

Travel Expenditures

	1960	1961	1962	Change in 1962
millions of dollars				
Receipts:				
United States	375	435	510	+ 75
Overseas	45	47	50	+ 3
All countries	420	482	560	+ 78
Payments:				
United States	462	459	420	- 39
Overseas	165	183	190	+ 7
All countries	627	642	610	- 32
Balance:				
United States	- 87	- 24	+ 90	+ 114
Overseas	- 120	- 136	- 140	- 4
All countries	- 207	- 160	- 50	+ 110

buted to the increase in net payments on income account from \$561 million to \$570 million. This annual gain would have been considerably larger, except for the extraordinary concentration of dividend payments in the first quarter of 1961. The \$570 million deficit represented nearly 57 per cent of the imbalance on "invisibles", the highest proportion since 1956 (almost 60 per cent), and compared with about 49 per cent in 1961. This sharp rise was attributable to the shifts in the relative importance of the deficits of other items, notably travel expenditures.

Income Account: Payments

Period	Total	Interest	Dividends
	millions of dollars		
1960	653	239	414
1961	770	259	511
1962	781	285	496
1961 I Q	204	61	143
II Q	174	68	106
III Q	170	58	112
IV Q	222	72	150
1962 I Q	179	67	112
II Q	205	76	129
III Q	163	62	101
IV Q	234	80	154

from \$770 million to \$781 million in 1962.

The combined effect of new issues of bonds (preponderantly corporate), retirements, trade in outstanding issues and tax withheld accounted for over 60 per cent of the \$26 million increase in interest payments, while the change over the year in the foreign exchange rate of the Canadian dollar accounted for the rest. The \$15 million decline in dividend payments was all ascribable to direct investment dividends, which fell more than \$25 million while net profits of unincorporated branches

purchases by Canadian tourists abroad were important factors which generated the surplus. Sharp declines in Canadian tourist purchases in the United States in the third and fourth quarters accounted for a substantial part of the above reduction in Canadian expenditures.

The rapid rise since the mid-fifties in net payments of travel expenditures to overseas countries was moderated in 1962, with a deficit of \$140 million, only slightly more than in 1961. Travel receipts from overseas increased from \$47 million to \$50 million while expenditures by Canadians in overseas countries rose from \$183 million to \$190 million. Over all, travel receipts grew 16 per cent from \$482 million to \$560 million, expenditures declined 5 per cent from \$642 million to \$610 million, and the 1962 deficit of \$50 million was less than one-third of the net payments of \$160 million for 1961, and less than one quarter of the peak deficit in 1960.

A larger rise in payments than in receipts of interest and dividends contri-

The receipt of interest and dividends increased from \$209 million to \$211 million, with each of the two components rising slightly. The receipt of interest on official loans was \$5 million lower, while the earnings of the exchange fund account and on holdings of foreign securities were up \$6 million. At \$131 million dividend receipts remained practically unchanged, but the absence in 1962 of extraordinary receipts from the Rest of the Sterling Area of the previous year was offset by larger receipts from other areas. These higher receipts were influenced by the appreciation of foreign currency in terms of the Canadian dollar and an increase in Canadian holdings of United States stocks.

A ten per cent increase in interest payments from \$259 million to \$285 million, in part offset by a reduction in dividend payments from \$511 million to \$496 million resulted in the total of payments moving up

advanced nearly \$10 million and dividend remittances on portfolio investment increased slightly. Reduced dividends on direct investment were concentrated in payments by companies engaged in mining and trade, as manufacturing firms paid larger dividends in 1962.

In company with the increased merchandise trade, both receipts and payments on freight and shipping services rose in 1962. With a larger advance of over 3 per cent recorded in payments than in receipts of more than 2 per cent, the deficit on this account widened from \$82 million to \$90 million. The 1962 deficit was about the level of 1960 but below \$105 million for 1959. Higher inland freight, including transportation of crude petroleum to the United States, and increased expenditures of foreign vessels in Canadian ports, offset in part by lower Canadian shipping earnings, accounted for the increase in gross receipts from \$486 million to \$498 million. Heavier freight payments for imports brought in foreign vessels and also on inland transportation in the United States contributed to the growth in payments for freight and shipping from \$568 million to \$588 million. Net payments on freight and shipping services represented 7 and 9 per cent, respectively, of the deficit on "invisibles" in 1961 and 1962.

Net payments of inheritances and migrants' funds were reduced substantially from \$71 million to \$39 million, as receipts climbed from \$103 million to \$124 million, while payments declined from \$174 million to \$163 million. Immigrants, whose arrival increased from approximately 71,700 to 74,600 persons in 1962, and the higher per capita funds of the immigrants caused the rise in the receipts. The decline in payments, on the other hand, was attributable to the estimated lower emigration of Canadians, in particular to the United States.

Miscellaneous Current Transactions

	Receipts		Payments	
	1961	1962	1961	1962
	millions of dollars			
Government, excluding official contributions	112	114	155	149
Personal and institutional remittances	24	26	98	91
Miscellaneous income	82	102	138	143
Business services	185	184	399	430
Total	403	426	790	813
Balance	- 387	- 387	-	-

A small increase from \$162 million to \$165 million took place in the value of gold production available for export, reflecting the greater premium on foreign exchange.

The decline in official contributions from \$56 million to \$32 million was concentrated in the aid under the Colombo Plan. Included however in the total for 1961 were wheat shipments to India and Pakistan in addition to two vessels built by the Canadian Government as a gift to the West Indies Federation.

Net payments on all other current transactions remained unchanged at \$387 million as equal increases occurred in receipts from \$403 million to \$426 million and in payments from \$790 million to \$813 million. Because however of shifts in the relative importance of other components, the

same deficit represented more than 33 per cent and 38 per cent, respectively, of the deficit on "invisibles" in 1961 and 1962. A sizable gain in business service payments was counterbalanced by lower net payments on several other items. For government expenditure (other than official contributions) and personal and institutional remittances, receipts increased while payments declined. In contrast in the case of miscellaneous income a small rise in payments was outweighed by a much larger gain in receipts. With rising production and consumer income during 1962, business service payments, covering royalties, engineering and management fees, franchises, etc, to head offices and other non-residents rose some 8 per cent during the year. Interest income earned on credit sales of wheat and machinery, profits on official transactions in gold, compensation for sales contract cancellation, and increased profits of insurance companies contributed to a gain of \$20 million in receipts of miscellaneous income. Receipts of personal and institutional remittances were up \$2 million, while payments were down \$7 million. Among government expenditures, contributions to the infrastructure programme and other payments to the NATO were lower in 1962, as also were contributions to the United Nations operations in the Congo.

Transactions by areas

The characteristic pattern of Canada's current account continued in 1962 although the extent of bilateral imbalance was reduced. In this pattern a large deficit with the United States in both goods and services is partly financed by a surplus from Canadian trade with overseas countries.

This traditional course has undergone some modification over the past decade. There have been relatively wide variations in the balances with overseas countries while the deficit with the United States has remained very high by historical standards. Although this deficit with the United States declined in 1962 it was, at \$1,116 million, much higher than in any year before 1956, with one exception. The reduced surplus with overseas countries of \$268 million in 1962, while less than \$404 million in 1961, was larger than in the years from 1957 to 1960.

Other parts of Canada's current deficit with the United States have been financed by capital from overseas countries invested directly in Canada and also by capital from overseas invested through intermediaries in the United States. The other main source of financing has been the investing of capital of United States origin which over this past decade has covered more than half of Canada's current account deficit with that country. This was again the case in 1962 when, however, capital from the United States played a relatively larger role than in the decade as a whole.

The decline of \$270 million in the current account deficit with the United States from \$1,386 million to \$1,116 million represented about twice the magnitude of the improvement of \$134 million in Canada's balance of international payments with all countries. The surplus on current transactions with the United Kingdom continued to grow in 1962, by \$26 million, while the substantial surplus of 1961 with other countries was reduced by three-quarters to \$55 million in 1962.

A 15 per cent increase in receipts from the United States from \$4,510 million to \$5,183 million offset by a smaller rise of nearly 7 per cent in payments from \$5,896 million to \$6,299 million produced a 20 per cent narrowing in the current deficit. This reduction with the United States, first since 1958, was distributed almost equally between merchandise trade and "invisible" transactions. A rise of more than 16 per cent in merchandise exports from \$3,213 million up to \$3,742 million, against a 10 per cent growth in imports from \$3,828 million to \$4,217 million, contributed to a decline of \$140 million from \$615 million to \$475 million in the merchandise trade deficit. A sizable rise of \$144 million in non-merchandise receipts from \$1,297 million to \$1,441 million, which was offset slightly by the payments rising from \$2,068 million to \$2,082 million, cut back the non-merchandise deficit from \$771 million to \$641 million.

Crude petroleum exports to the United States recorded the largest individual commodity increase of nearly \$80 million, followed by iron ore whose shipments rose more than \$65 million over 1961. Exports of lumber and aluminum increased about \$40 million each, and a gain of approximately \$30 million each occurred in exports of wood pulp, aircraft and natural gas; and nickel shipments were up nearly \$20 million. Exports of uranium declined \$25 million, following a drop of over \$60 million in 1961. On the basis of 9-month trade returns, imports of automobile parts and non-farm machinery were each about \$50 million higher.

The \$130 million cut in the deficit on non-merchandise transactions with the United States was seven-eighths attributable to the sharp improvement in the travel account. As referred to above, a deficit of \$24 million in 1961 was transformed to a surplus of \$90 million in 1962, when receipts from American visitors increased \$75 million, while the spending by Canadian travellers in the United States declined \$39 million. Deficits were trimmed in more moderate proportions for migrants' funds, the income account and freight and shipping, while net payments on miscellaneous current transactions were up about 10 per cent, due mainly to business service payments.

Current Account Balances with
Principal Countries and Areas

	1960	1961	1962	Change in 1962
	millions of dollars			
United States	- 1,361	- 1,386	- 1,116	+ 270
United Kingdom	166	187	213	+ 26
Other Sterling Area...	43	27	11	- 16
Other OECD countries	- 14	- 31	- 70	- 39
Other countries	- 77	221	114	- 107
All countries	- 1,243	- 982	- 848	+ 134

In transactions with the United Kingdom, a small decline in merchandise imports from \$593 million to \$575 million, with exports remaining steady at \$924 million, raised the surplus on merchandise trade from \$331 million to \$349 million. The deficit on non-merchandise transactions narrowed from \$144 million to \$136 million, as a slight decline in receipts was less than a larger reduction in payments for services. Exports of barley, oilseed cake, newsprint, aluminum and products were up in 1962, while shipments of flaxseed, woodpulp, iron ore, nickel, copper and products and plastic materials were lower. On the basis of incomplete

trade returns for the year, lower imports were indicated for engines, electrical goods and aircraft, while imports of woollen materials, automobiles and non-farm machinery appeared to be higher in value.

Summary of Current Transactions with the United States,
United Kingdom and other Countries 1961 and 1962,
and Change between the Periods

	1961	1962	Change	1961	1962	Change
	millions of dollars					
	All countries			United States		
<u>Fourth quarter</u>						
Merchandise exports (adjusted)	1,619	1,721	+ 102	902	978	+ 76
Merchandise imports (adjusted)	1,559	1,583	+ 24	1,018	1,056	+ 38
Balance on merchandise trade	60	138	+ 78	- 116	- 78	+ 38
Other current receipts	449	488	+ 39	293	327	+ 34
Other current payments	781	745	- 36	544	531	- 13
Balance on non-merchandise transactions	- 332	- 257	+ 75	- 251	- 204	+ 47
Total receipts	2,068	2,209	+ 141	1,195	1,305	+ 110
Total payments	2,340	2,328	- 12	1,562	1,587	+ 25
Current account balance	- 272	- 119	+ 153	- 367	- 282	+ 85
<u>Calendar year</u>						
Merchandise exports (adjusted)	5,889	6,364	+ 475	3,213	3,742	+ 529
Merchandise imports (adjusted)	5,716	6,209	+ 493	3,828	4,217	+ 389
Balance on merchandise trade	173	155	- 18	- 615	- 475	+ 140
Other current receipts	1,845	1,984	+ 139	1,297	1,441	+ 144
Other current payments	3,000	2,987	- 13	2,068	2,082	+ 14
Balance on non-merchandise transactions	- 1,155	- 1,003	+ 152	- 771	- 641	+ 130
Total receipts	7,734	8,348	+ 614	4,510	5,183	+ 673
Total payments	8,716	9,196	+ 480	5,896	6,299	+ 403
Current account balance	- 982	- 848	+ 134	- 1,386	- 1,116	+ 270
	United Kingdom			Other countries		
<u>Fourth quarter</u>						
Merchandise exports (adjusted)	248	249	+ 1	469	494	+ 25
Merchandise imports (adjusted)	155	131	- 24	386	396	+ 10
Balance on merchandise trade	93	118	+ 25	83	98	+ 15
Other current receipts	79	75	- 4	77	86	+ 9
Other current payments	93	83	- 10	144	131	- 13
Balance on non-merchandise transactions	- 14	- 8	+ 6	- 67	- 45	+ 22
Total receipts	327	324	- 3	546	580	+ 34
Total payments	248	214	- 34	530	527	- 3
Current account balance	79	110	+ 31	16	53	+ 37
<u>Calendar year</u>						
Merchandise exports (adjusted)	924	924	-	1,752	1,698	- 54
Merchandise imports (adjusted)	593	575	- 18	1,295	1,417	+ 122
Balance on merchandise trade	331	349	+ 18	457	281	- 176
Other current receipts	229	227	- 2	319	316	- 3
Other current payments	373	363	- 10	559	542	- 17
Balance on non-merchandise transactions	- 144	- 136	+ 8	- 240	- 226	+ 14
Total receipts	1,153	1,151	- 2	2,071	2,014	- 57
Total payments	966	938	- 28	1,854	1,959	+ 105
Current account balance	187	213	+ 26	217	55	- 162

The \$8 million reduction in the deficit on non-merchandise transactions was traced mainly to a moderate increase in net receipts of migrants' funds and a smaller deficit on interest and dividends. The number of immigrants from the United Kingdom rose substantially, while Canadians leaving for Britain were fewer in 1962. Net receipts on the freight and shipping account declined slightly, and a small deficit on business services widened a little.

The decline of \$162 million in the surplus in transactions with other countries from \$217 million to \$55 million was distributed among the Rest of the Sterling Area, other OECD countries and the remaining countries with about two-thirds of the deterioration concentrated in the change in the current balance with the third group of countries. In each of the areas, the deterioration in the current balance occurred mostly in merchandise trade. With the Rest of the Sterling Area and the "Other countries" the decline in the merchandise trade surplus was in each case moderated by a small improvement in the balance on non-merchandise transactions. A reduction of \$24 million in official contributions directed to the Rest of the Sterling Area was in part offset by a fairly substantial decline in receipts of investment income and a slightly larger travel deficit. Individually small and offsetting changes occurred in non-merchandise transactions with the other OECD countries. Deficits increased on the income and freight accounts while government expenditures, particularly in connection with the NATO, were lower. A reduction in the surplus on freight and shipping with "Other countries" was more than counterbalanced by reduced government expenditures and increased receipts of miscellaneous income, including interest on credit sales of commodities.

Substantial changes in the volume of grain exports had the effect of reducing exports to Czechoslovakia, the U.S.S.R. and East Germany to almost insignificant totals in 1962, but of further boosting exports to Mainland China. Total exports to Cuba dropped \$20 million and to Japan \$17 million.

The fourth quarter

In the final quarter of the year the current deficit was sharply reduced with a large export balance on merchandise account coinciding with a considerable reduction in the deficit from non-merchandise transactions. Each of these broad factors contributed about half of the change from the previous year. The resulting current account deficit of \$119 million was much less than in any similar quarter since 1954.

This relatively small deficit was only possible because of the size of the export balance on merchandise account. This balance of \$138 million has rarely been exceeded in any quarter and then only in a few quarters in the period before 1952. Larger surpluses were produced by merchandise trade in the fourth quarter of 1948, 1949 and 1951. The enlargement in the merchandise balance over the fourth quarter of 1961 was from a larger gain in the value of exports than in imports. The coincidence of these changes in the fourth quarter combined to produce the large export balance; while exports were at a very high level, imports after allowing for seasonal variation, were much lower than in the previous quarter when business inventories were accumulated in Canada. Details are not yet available showing the commodity composition of imports in the fourth quarter. In the case of exports the largest part of the rise over the previous year continued to be in exports to the United States, with other rises distributed to various overseas destinations.

In the non-merchandise account, a variety of changes occurred in the fourth quarter which had the combined effect of reducing the deficit. Many types of influence contribute to quarterly changes of this kind and make underlying trends difficult to isolate. For example, some major items like dividend transfers from subsidiaries are highly variable from quarter to quarter. Official contributions, other government expenditures and immigrants' funds, also are subject frequently to irregular fluctuations. On the other hand, items like the travel account during 1962 showed a sustained improvement, and the freight account tends to reflect major changes in merchandise trade. In the opposite direction interest payments abroad have been steadily rising as non-resident holdings of Canadian bonds increase, and payments for business services have increased from one year to another.

Each of the main items among non-merchandise transactions, with the exception of interest and dividends, contributed to the \$75 million reduction in the "invisible" deficit between the fourth quarters of 1961 and 1962. The travel account was responsible for roughly one-half of the improvement, with expenditures by Canadians abroad declining substantially in addition to higher receipts, mainly from visitors from the United States. A more moderate narrowing in the deficit on freight and shipping services occurred, as receipts gained while payments declined. Official contributions dropped some \$12 million, and receipts of miscellaneous income rose, while payments remained fairly stable between the two periods. Both increased gold production and a lower deficit on migrants' funds contributed moderately to the reduction of the deficit.

Net payments on interest and dividends were slightly higher as the increase in payments exceeded that of receipts. Dividend transfers were high as is usually the case in the fourth quarter but not as high as in that period of 1959. The share of the non-merchandise deficit attributable to the income account stood at nearly 60 per cent in the fourth quarter of 1962, as compared with 45 per cent one year before, as the proportion originating in the travel account dropped from 12 per cent to 3 per cent.

The fourth quarter saw exceptionally large capital inflows for direct investment which included large foreign purchases of existing enterprises, a substantial volume of new issues of Canadian securities placed in foreign markets, and accelerated repayment to Canada of an intergovernmental loan. The net capital inflow in all long-term forms in the quarter amounted to \$447 million, representing 62 per cent of the total for the year. This was greatly in excess of the current account deficit of \$119 million incurred in the fourth quarter. Other capital movements were also inwards and the reserve position improved by \$478 million including repayment of more than half of the special assistance extended to Canada earlier in the year.

Capital Movements

Summary	First half		Second half		Year	
	1961	1962	1961	1962	1961	1962
millions of dollars						
Capital movements in long term forms	+ 456	+ 11	+ 334	+ 707	+ 790	+ 718
Capital movements in short term forms(1) ..	+ 348	- 273	+ 73	+ 610	+ 421	+ 337
Balance on goods and services	- 648	- 695	- 334	- 153	- 982	- 848
Total of above	+ 156	- 957	+ 73	+ 1,164	+ 229	+ 207
Special international financial assistance	-	+ 707	-	- 377	-	+ 330
Change in official holdings of gold and foreign exchange(2)	- 156	+ 250	- 73	- 787	- 229	- 537

(1) Excluding change in official holdings of gold and foreign exchange and special international financial assistance.

(2) Increase (-).

The outline of Canada's balance of international payments for the year 1962 was broadly similar to that for 1961, although inflows of capital in both long term and short term forms contracted moderately as did the deficit on current account. The change in official holdings of gold and foreign exchange, apart from special international financial assistance, gave rise to a capital outflow of \$207 million in 1962 compared with \$229 million in 1961.

But the general similarity of the total in the two years conceals the anatomy of the exchange crisis of early summer and the effects of remedial measures and other developments through the course of the year which stand out clearly in quarterly or semi-annual series.

Movements of capital for direct investment, portfolio stocks and bonds, official loans, and other long-term investments totalled \$718 million, equivalent to 85 per cent of the current account deficit in 1962. In 1961 these movements totalled \$790 million, equivalent to 80 per cent of the larger current account deficit in that year. The proportions in 1955, 1959 and 1960 were smaller, although over the post-war period as a whole it has been about 94 per cent.

Geographically in 1962 the movements in these forms from the United States represented about 90 per cent of the total. In 1961 the net inward movement from the United States exceeded by a few percentage points the overall inflow of capital in long-term forms. The movements from the United Kingdom were of roughly similar magnitudes in the two years but there was a larger inflow from other overseas countries in 1962 in contrast to an outflow in 1961 to which the extension of trade credits contributed.

Changing Composition of Capital Movements

	1959	1960	1961	1962	1959	1960	1961	1962
	millions of dollars				percentage			
Transactions with non-residents affecting:								
Net external long-term debt of Canadian governments(1)	461	188	147	438	31	15	15	52
Foreign direct and portfolio investment in Canadian concerns ..	713	727	744	569	47	58	76	67
Canadian long-term investments abroad n.i.e. (increase, -)	- 113	- 69	- 113	- 179	- 8	- 5	- 12	- 21
Other external liabilities, net ..	443	397	204	20	30	32	21	2
Total capital inflow	1,504	1,243	982	848	100	100	100	100

(1) Increase in holdings by non-residents of Government of Canada, provincial and municipal bonds, less net repayments on intergovernmental loans and subscriptions in gold and foreign currencies to international financial agencies.

DIRECT INVESTMENT The net movement of foreign capital to Canada for direct investment in foreign-controlled enterprises during 1962 is estimated to have totalled \$525 million, some \$10 million higher than in 1961. This substantial total was exceeded only in three earlier post-war years, 1956, 1959 and 1960.

Perhaps as much as a third of the movement in 1962 represented net inflows for the acquisition of existing concerns and interests and for refinancing, etc., having no counterpart in current new capital formation in Canada. This was an unusually large proportion, such inflows being more than four times their size in 1961. The largest part of them was related to the takeover of a number of petroleum enterprises and a retail chain, but there were also significant amounts to acquire major interests in manufacturing concerns and commercial real estate. Not all the takeovers were by non-residents, and the figures reflect some offsetting capital outflows whereby control of various enterprises was repatriated to Canada, as well as some refinancing of foreign-controlled concerns through issues of securities. Apart from the direct effects of capital movements, control of a number of other concerns passed into non-resident hands through exchanges of stocks. And in some cases the existence of debt or other securities gave leverage to the capital flow, resulting in a larger increase in the amount of investment controlled by non-residents than the actual increase in their ownership.

The net movement was heavily concentrated in the latter part of the year, with successive quarterly totals of \$110 million, \$80 million, \$145 million and \$190 million. There was accordingly an increase of \$145 million in the second half of the year compared with the first; in 1961 there had been a decrease of \$81 million. About two thirds of the half-year to half-year decrease in 1961, and all of the corresponding increase in 1962 were caused by takeovers and refinancing operations.

Industrially the petroleum industry continued in first place in the direct investment inflows, although had it not been for a number of takeover transactions mining would have replaced it due to continuing high inflows for iron ore development. Merchandising appears to have followed with an important takeover contributing to its prominence, then manufacturing where the movement as usual tended to be less one-sided, substantial repayments to parents offsetting a significant part of the other inflows.

Geographically, direct investment inflows from overseas countries other than the United Kingdom increased sharply in 1962 compared with 1961. At about double their size in 1961 they accounted for some 20 per cent compared with 10 per cent in the earlier year. Movements from both the United States and the United Kingdom are estimated to have been somewhat smaller than in 1961 accounting for about 60 per cent and less than 20 per cent respectively of the net inflow.

Preliminary estimates of the movement of capital for direct investment abroad indicate a net outflow of \$100 million, compared with \$80 million in 1961. The largest part of the outflow was for manufacturing and mining but there were also outflows to a variety of other undertakings including the development of jointly owned communication facilities. The total reflected the acquisition of some existing assets outside Canada. About half of the net movement was to overseas countries other than the United Kingdom while a further part represented international facilities.

SECURITY TRANSACTIONS Transactions in stocks and bonds between Canada and other countries were of more than usual interest in 1962 which involved the exchange crisis in the early summer and the re-emergence in the final quarter of the year of the Government of Canada as a borrower in external markets for the first time since 1950. More than seven-eighths of the net capital inflow of \$282 million which occurred from this group of transactions in 1962 arose in the final quarter of the year. On balance the net inflow was somewhat smaller than in 1961 when it totalled \$306 million. The total value of the transactions in 1962 was \$4,620 million, which was more than \$440 million above the previous record established in 1961.

The proceeds of new issues of Canadian securities sold to non-residents amounted in 1962 to \$108 million, a total almost one-third higher than in 1961, exceeded only once earlier. Retirements of foreign-held Canadian issues at \$295 million were only slightly lower than in 1961. Trade in outstanding Canadian securities led to a net capital outflow for the first time since 1955, as the net repurchase from non-residents of \$116 million of stocks exceeded the net sale to them of \$64 million of outstanding bonds. All transactions in foreign securities led to a net capital outflow of \$79 million in 1962 compared with \$33 million in the previous year, as Canadians became substantial purchasers particularly of United States stocks. Compared with 1961, the proceeds of sales to non-residents of new issues of Canadian securities rose by \$175 million, the balance of trade in outstanding stocks moved in the opposite direction by \$156 million and there was also an increase of \$46 million in the outflow for the acquisition of foreign securities. These were the principal changes contributing to a net decline of \$24 million in the balance from all transactions in bonds and stocks between Canada and other countries.

In 1962 foreign savings supplied a somewhat larger part of the new money raised by Canadians in capital markets than in either 1960 or 1961. A foreign placement by the Government of Canada in the fall of the year, its first recourse to markets outside Canada for more than a decade, brought about the net acquisition by non-residents of Government direct and guaranteed issues to about 23 per cent of the net new supply of these securities. This compared with about 7 per cent in 1961, although the funds raised by the Government were in total very much smaller in the more recent year.

The net acquisitions by non-residents of provincial, municipal, and corporate securities were equivalent to about 16 per cent of the net new supply. This was about the level which prevailed in the two preceding years, although from 1956 through 1959 the percentages were much higher.

Foreign savings invested in provincial securities were equal to 21 per cent of the net new supply in 1962 compared with 4 per cent in 1961 and 8 per cent in 1960; the sharp increase in 1962 was particularly striking since net borrowing by provinces fell more than 25 per cent. Foreign investment in municipals equalled 27 per cent of net new issues in 1962 compared with only 5 per cent of the somewhat smaller new supply in 1961. In the case of corporation securities, on the other hand, net acquisitions by non-residents fell to only 7 per cent of the net new supply in 1962 compared with about 37 per cent in 1961. This change was almost entirely the result of the sharp swing in the direction of trade in outstanding stocks referred to earlier. Taking corporate and institutional bonds and debentures alone, the net acquisition by non-residents in 1962 fell just short of half of the net new supply, a proportion slightly smaller than in 1961 but very much larger than was the case even through the boom years, although if some unusual refinancing transactions were excluded the proportion would be reduced to about 22 per cent.

While the balance of \$64 million from trade in outstanding Canadian bonds and debentures in 1962 was only \$1 million higher than in 1961, the proportion arising from transactions in Government of Canada direct and guaranteed issues was smaller, and that arising from transactions in provincial and municipal issues was larger. Residents of the United States bought outstanding Canadian bonds during 1962 and residents of overseas countries were sellers, although in smaller amounts. This pattern was the same as prevailed in 1961.

The very large capital export represented by the net repatriation of \$116 million outstanding Canadian common and preferred stocks was the first arising from this type of transaction since 1950 and was the largest on record representing a change of \$156 million from the net sales of \$40 million which occurred in 1961.

Portfolio Security Transactions Between Canada and
Other Countries, 1962

Net sales (+) or purchases (-) by Canadians	I	II	III	IV	Year
millions of dollars					
Canadian securities:					
Outstanding - Bonds ...	- 3	+ 4	+ 39	+ 24	+ 64
Stocks ..	- 14	- 44	- 26	- 32	- 116
New issues	+ 52	+ 200	+ 87	+ 369	+ 708
Retirements	- 70	- 68	- 48	- 109	- 295
Foreign securities:					
Outstanding issues	- 32	- 37	- 9	- 5	- 83
New issues	- 2	- 4	- 5	- 5	- 16
Retirements	+ 5	+ 5	+ 5	+ 5	+ 20
Total - All countries	- 64	+ 56	+ 43	+ 247	+ 282
United States	- 32	+ 141	+ 64	+ 282	+ 455
United Kingdom	- 17	- 39	- 13	- 21	- 90
Other countries	- 15	- 46	- 8	- 14	- 83

through the sale to non-residents of new issues of Canadian securities in 1962 included \$323 million from the sale of new corporate issues. This was \$60 million lower than in 1961 although it included \$125 million of new borrowing to refinance other forms of external indebtedness. Apart from these special refinancing transactions the total for 1962 was of the same general order of magnitude as in 1959 and 1960. Government of Canada issues came next, totalling \$155 million which included \$135 million, representing the Canadian dollar equivalent of \$125 million in United States funds, the delivered portion of the placement with institutions there of a \$250 million issue. Sales to non-residents of new provincial government direct and guaranteed issues produced \$143 million and municipal issues produced \$87 million.

Net Sales of Outstanding Canadian Stocks
to Non-residents

Quarter		Total	United States	Other countries
millions of dollars				
1961	I Q	13	21	- 8
	II Q	32	45	- 13
	III Q	-	22	- 22
	IV Q	- 5	32	- 37
1962	I Q	- 14	15	- 29
	II Q	- 44	- 3	- 41
	III Q	- 26	- 6	- 20
	IV Q	- 32	- 18	- 14

appropriate for Canada in the light of the exchange position, probably reflected in part the time required for potential borrowers and lenders to reappraise the situation and to complete legal and other arrangements for flotations, as well possibly as the seasonally reduced activity in the capital market frequently typical of the summer quarter. There were some issues offered in the third quarter for delivery in the fourth. Yet another factor may have been the lead given by the major placement in the United States by the Government of Canada in the latter part of the third quarter.

Although residents of overseas countries have been, on balance, reducing their holdings of Canadian stocks through sales of outstanding issues since mid-1960, residents of the United States became net sellers only in the second quarter of 1962.

There were capital outflows from trade in outstanding Canadian stocks each quarter of 1962, the outflow reaching a peak of \$44 million in the second quarter. On the other hand, trade in outstanding Canadian bonds gave rise to only small balances in the first and second quarters of the year, but led to marked inflows of capital in the third and fourth quarters when non-residents showed substantial interest particularly in Government of Canada issues.

The inflow to Canada of \$708 million of foreign capital

Some special interest attaches to the quarterly distribution of the capital inflows from sales to non-residents of new issues. In the first quarter of 1962 the total proceeds amounted to only \$52 million, and in the second quarter to only \$75 million, apart from the special refinancing issues of \$125 million. Coincidentally with the exchange difficulties experienced in the second quarter yields on Canadian securities rose and the differential between rates in Canada and in the United States widened sharply. In the third quarter the proceeds of new issues rose to \$87 million, and in the fourth quarter to \$369 million including the \$135 million borrowed in the United States by the Government of Canada. The delay in response to the changes in the interest differentials, despite indications that some increased borrowing abroad was

Retirements of foreign-held Canadian securities totalling about \$295 million in 1962 were of roughly the same size as in 1961, although the composition was somewhat different. The total included \$36 million of Government of Canada direct and guaranteed obligations, \$52 million of provincial and municipal securities and \$157 million of corporate issues, including \$33 million of stocks retired from the market through redemption, negotiated purchases, etc. Since retirements required by the operation of sinking funds are often satisfied through the surrender of bonds acquired in the market, some repurchases of outstanding issues in effect also represent debt retirement. Rising payments for retirements are to be expected with the increasing amounts of debt of Canadians held by non-residents. The retirements of bonds and debentures in 1962 represented less than 1/25th of the debt held by non-residents.

Net purchases from non-residents of \$83 million of outstanding foreign securities included \$79 million of foreign stocks. The quarterly pattern of trading showed the same tendency for strong outflows in the first half of the year typical of trade in outstanding issues. Canadians in 1962 also purchased \$16 million of new foreign securities. This was somewhat smaller than the outflow of \$87 million which occurred in 1961 when the Commonwealth of Australia offered Canadian dollar bonds in the Canadian capital market. Most of the purchases by Canadians in 1962 were bonds or stocks of the United States and of Israel. Retirements of Canadian-held foreign securities in 1962 were exceptionally high at \$20 million and included mainly investments in the United States, although there was also a scattering of issues of other countries and of international financial organizations.

The over-all movement of portfolio security capital to Canada came in 1962, as it did in the two years immediately preceding, entirely from the United States. Inflows from that country amounted to \$455 million, compared with \$447 million in 1961 and \$218 million in 1960. The movement included net sales of \$524 million of Canadian securities, comprising \$83 million of outstanding bonds and \$674 million of new issues, offset by net repurchases of \$12 million of outstanding stocks and by retirements of \$221 million of foreign-held issues. Transactions with the United States in foreign securities led to a capital outflow of \$69 million.

Security transactions with the United Kingdom in 1962 led to a capital outflow of \$90 million. In 1961 there was a net outflow of \$101 million and in 1960 one of \$32 million. These net annual repatriations of British portfolio investment from Canada occurring in 1960 and the years since were the first to appear since 1952. The outflow in 1962 took the form of net repurchases by Canadians of \$5 million of outstanding Canadian stocks, retirements of \$42 million of United Kingdom-owned Canadian bonds and stocks, and net purchases by Canadians of \$2 million of British securities, partially offset by sales of \$18 million of new Canadian issues and \$1 million of outstanding Canadian bonds.

The outflow to other overseas countries rose sharply to \$83 million in 1962 compared with \$40 million in 1961 and large inflows in earlier years which reached a peak of \$120 million in 1959. Contributing to the outflow were repurchases of \$39 million of outstanding Canadian stocks, \$20 million of outstanding Canadian bonds, retirements of \$32 million of foreign-held Canadian issues and purchases by Canadians of \$8 million of foreign securities. Against these outward movements were the inflows resulting from the sale to residents of those countries of \$16 million of new Canadian issues.

A more extended review of international security movements in 1962 will be found in the December issue of "Sales and Purchases of Securities Between Canada and other countries". (DBS Catalogue No. 67-002).

Interest rates in Canada rose slightly over 1962 while those in the United States declined. The result was an increase in the differential. The yield on Government of Canada 3 3/4's of 1978 rose slightly over the year by 11 base points to 5.07 per cent, while over the same period the yield on the roughly comparable United States Government 3 1/4's of 1983 declined by some 27 base points to 3.84 per cent. The differential for the last Wednesday of each month varied between 83 base points in January and 152 base points in August. By December it had declined to 123 base points.

In 1961 the differential varied between 136 base points in January and 85 base points in December. Yield differentials between central government issues may not be the most appropriate comparison for the analysis of international security transactions. Markets for these obligations at times reflect special local domestic monetary and fiscal situations. It might be suggested that an investor may give to the securities of his own central government a specially preferred position and may equate for his own purposes the securities of a foreign central government with those of a high grade junior government or corporation. Special tax considerations in the United States add to the difficulty of comparisons.

Yields on Representative Long Term Government Bonds

Last Wednesday	Canada(1)	United States(2)	Differential
1960 Dec. ...	5.41	3.80	1.61
1961 Mar. ...	5.18	3.80	1.38
June ...	4.99	3.97	1.02
Sept. ..	5.02	4.03	.99
Dec. ...	4.96	4.11	.85
1962 Mar. ...	4.86	3.99	.87
June ...	5.23	3.91	1.32
Sept. ...	5.38	3.91	1.47
Dec. ...	5.07	3.84	1.23

(1) 3 3/4/15 Jan. 75-78

(2) 3 1/4/15 June 78-83

value of the United States dollar. While the significance of differences in the indexes is limited, nevertheless the outflows of capital for the purchase of Canadian and foreign stocks by residents from non-residents were consistent with these price relationships. Gross sales to non-residents of over \$690 million of outstanding Canadian stocks were about \$40 million lower than in 1961 and amounted to slightly less than one-fifth of the value of shares traded on the principal exchanges in Canada. This proportion was somewhat smaller than in either 1960 or 1961.

Price of United States Stocks in terms of Canadian Stocks

Year	Month	At Cdn. \$1 = U.S. \$1	At market exchange rate
1961	December	100	100
1962	March	98	99
	June	94	98
	September	96	99
	December	98	101

Based on "DBS Investors" and "Standard and Poor's 500" Indexes.

The monthly average of common stock prices in Canada in December, 1962 (as measured by the Dominion Bureau of Statistics Investors Index published in "Prices and Price Indexes", Catalogue No. 62-002) was about 11 per cent lower than in December, 1961. Prices in the United States as measured by Standard and Poor's "500" Index fell in a similar comparison by about 13 per cent. In contrast sharp rises of about 27 per cent were enjoyed in each country in the previous year.

The roughly parallel movement in stock prices in the two countries over the year mirrors the similarity of market influences as well as the existence of inter-listed issues. Over the course of the year, however, United States prices tended to be lower relatively to those in Canada, compared to the levels in December 1961, even after taking into account the increased exchange

Apart from the pervasive effect of the devaluation of the Canadian dollar and the establishment of a par value for it in terms of United States funds, there were a number of other influences of possible relevance to international security movements in 1962. Among them were recent or anticipated extensions of provincial utilities through the acquisition of privately-owned firms, a wide variety of take-overs, spin-offs, and similar corporate changes affecting non-residents in greater or less degree, political uncertainty, and some contraction of investment in Canada by the special income accumulating funds established some years ago to facilitate United States portfolio investment in Canada. Actual or anticipated tax changes in the United States

may also have motivated some transactions, and the exchange crisis of mid-1962 together with the subsequent stabilization of the Canadian position no doubt also played a part.

OFFICIAL TRANSACTIONS

Canadian Government aid abroad in 1962 took the form largely of payment of the regular assessments from international agencies of which Canada is a member, official contributions, and guarantees of credit provided directly or indirectly from private sources. Only the latter transactions which give rise to claims on non-residents are reflected in the capital account, assessments and contributions forming a part of Canada's current payments.

Additionally Canada subscribed \$7 million for bonds of the United Nations, together with \$1 million in foreign currency and \$49 million in Canadian funds to international financial agencies. The Canadian dollar payments were largely offset by increased short-term Canadian dollar liabilities to these institutions and are discussed later.

There were no direct loans made by the Government of Canada to other national governments in 1962. Repayments, however, totalled some \$129 million, including the normal amortization as well as accelerated prepayments of \$67.6 million by France in the third quarter and of \$32.1 million by the Netherlands in the final quarter; France also made accelerated repayments on loans from the United

States. Other countries from whom there were receipts included the United Kingdom, India, Belgium and Ceylon. Total loan repayments to Canada by national governments aggregated \$10 million in the first half of the year and \$119 million in the latter half when the net effect of accelerated repayments was \$91 million. In addition to these principal repayments, there were receipts of \$27 million on account of interest in 1962; these are a part of the item in the current account covering Canada's receipts from interest and dividends.

The export of capital represented by the growth of Canada's official gold and foreign exchange holdings over the course of 1962 totalled \$537 million, or \$207 million apart from the effects of special international financial assistance made available to Canada during the year. From a month-end peak of \$2,111 million in terms of United States funds at the end of October 1961, Canada's official holdings of gold and United States dollars declined for seven successive months to \$1,493 million at the end of May 1962. A precipitate decline in June brought official holdings to approximately \$1,100 million.

Official Holdings of
Gold and United States dollars

End of		Amount	Change in period
		millions of U.S.A. dollars	
1961	I Q	1,935	+ 106
	II Q	1,985	+ 50
	III Q	1,924	- 61
	IV Q	2,056	+ 132
1962	I Q	1,709	- 346
	II Q	1,809*	+ 99
	III Q	2,445*	+ 636
	IV Q	2,539**	+ 95

* Includes (+) 650 special international financial assistance.

** Includes (+) 300 special international financial assistance.

The exchange crisis in the second quarter was the occasion for massive international assistance to Canada. It took the form of a drawing from the International Monetary Fund of various foreign currencies equivalent to \$300 million in United States funds, and of reciprocal currency arrangements entered into with the Federal Reserve System in the United States and with the Bank of England under which \$250 million and \$100 million respectively in terms of United States funds were made available to Canada. In all, this aid amounted to a credit of \$707 million in terms of Canadian funds in the second quarter. A \$400 million line of credit provided by the Export-Import Bank of Washington was not used.

Late in the third quarter of the year the Government of Canada sold to institutions in the United States an issue of \$250 million of United States dollar 5% 25 year bonds. Half of this amount was made available in the fourth quarter and is

recorded among new issues of Canadian securities sold to non-residents. (Also included with the data covering portfolio security transactions are trade with non-residents in outstanding Government of Canada issues, acquisitions by non-residents of new Government issues payable in Canadian dollars which were publicly offered in Canada, and retirements of foreign-held issues.) The remaining half was delivered early in 1963.

With the restoration of confidence and the growth of Canada's official holdings of gold and foreign exchange, the reciprocal currency arrangements were undone in the final quarter of 1962 and \$350 million in United States funds, having a Canadian dollar equivalent of \$377 million, was returned to the United States and the United Kingdom.

A more detailed description of the development of the exchange crisis and of the measures adopted by the Government will be found in the quarterly reports for the period. Information tabled in the House of Commons since that time has made known the detail and extent of forward operations entered into on behalf of the Exchange Fund Account during the period of crisis. At June 22 there were net forward sale commitments of \$239 million in United States funds; on the same date official holdings of gold and United States dollars amounted to \$1,215 million in United States funds.

From their low point in June 1962 the official holdings of gold and United States dollars rose rapidly to \$1,159 million at the end of the month, \$1,795 million at the end of the third quarter and \$2,239 million by the end of the year, expressed in United States funds and after deduction of the special international financial assistance outstanding in the amount of \$650 million at the end of the second and third quarters, and \$300 million at the end of the fourth.

The capital movements represented by changes in Canada's official holdings of gold and foreign exchange (which include minor variations of working balances of sterling as well as reserves of gold and United States dollars), combined with the effects of special international financial assistance,

were inflows of \$364 million and \$593 million in the first and second quarters, as Canada made use of some \$957 million of these external assets. Outflows of \$686 million and \$478 million occurred in the third and fourth quarters, a total of \$1,164 million in the last half of the year, as Canada's official exchange position was restored.

Other capital movements in which the Government of Canada was directly associated include transactions in Canadian treasury bills, Canadian dollar transactions with international financial agencies, and export credits. These are discussed in the following section.

OTHER CAPITAL MOVEMENTS Canadian dollar holdings of non-residents were reduced by about \$28 million over the year. The accompanying statement shows the divergent patterns of movements in Canadian treasury bills and in deposit obligations largely making up the total.

Change in Canadian dollar holdings
of foreigners

	Quarter	Total	Treasury bills	Deposits etc.
millions of dollars				
1961	I	- 5	+ 33	- 38
	II	- 72	- 75	+ 3
	III	- 1	- 34	+ 33
	IV	+ 44	+ 18	+ 26
1962	I	- 32	+ 18	- 50
	II	+ 34	+ 50	- 16
	III	- 54	- 3	- 51
	IV	+ 24	- 61	+ 85

Over the year as a whole residents of the United States added about \$21 million to their holdings in these forms of Canadian dollars, while residents of the United Kingdom and of other overseas countries each reduced their holdings. There were large movements particularly from the United States into Canadian treasury bills in the first half, which more than offset the drawing down of deposits in this period. Although sharp run-downs occurred in the final quarter in treasury bill holdings by residents of the United States, the United Kingdom and other overseas countries, increases in deposits by residents of each of these areas were large enough to offset them, and the total holdings by residents of each of these areas rose.

Total non-resident holdings at the end of 1962 were about \$540 million including about \$340 million of holdings by residents of the United States. These movements and balances are apart from the holdings of international financial agencies which are included elsewhere in the capital account.

The figures shown for non-resident holdings of treasury bills are the results of the gross sale during the year of about \$460 million, which was substantially higher than the total of \$375 million sold to non-residents during 1961. Most of the bills acquired in any year naturally matured or were repurchased by Canadians within the same year.

Yields on 91 day Canadian treasury bills moved through a range in 1962 which was more than double that in 1961. The average tender rate was at its low point of 3.04 per cent in the second week of April and reached a high of 5.51 per cent in the third week of July. During 1961 the yield ranged between 2.26 per cent and 3.34 per cent. Yields on the corresponding United States treasury bills showed greater stability and the range from 2.64 per cent to 2.95 per cent through 1962 was narrower than in 1961. Throughout the year the Canadian yield remained above its United States counterpart. The narrowest differentials, occurring in the early months of the year, were never less than one-quarter of one per cent, widening to a peak of 2.65 per cent by mid-year and remaining in excess of 2 per cent during the third quarter. By the close of the year the differential was just over one per cent.

Forward exchange cover for United States dollars was generally more costly during 1962 than in 1961, reducing the net nominal yield differential (adjusted for the cost of exchange protection) to less than one per cent throughout the year. The maximum protected differential was about 0.80 per cent at the end of June and in 38 of 52 Thursdays during the year the differential was one-half of one per cent or less. Theoretically movements of interest arbitrage capital may be expected to continue to a point where the cost of exchange protection offsets any remaining interest differential. In practice nominal differentials may be too narrow to motivate actual transactions. Not all purchases by non-residents of treasury bills are hedged by forward exchange contracts. Some investors may choose to accept the risk of exchange rate fluctuations; others may have an ultimate use for the currency and may therefore not be concerned with the repatriation of the proceeds of maturing bills.

Among the group of "other capital movements" for which detail is given in a supplementary statement were Canadian dollar payments aggregating \$49 million made by Canada to international financial agencies. This total included \$34 million and \$7 million representing adjustments required to maintain the gold value respectively of Canada's quota in the International Monetary Fund and subscription to the International Bank for Reconstruction and Development, and \$8 million covering the Canadian dollar subscription due in 1962 to the International Development Association.

Composition of "Other Capital Movements"

	1961	1962	1961	1962			
	Year	Year	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter
	millions of dollars						
Transactions with all countries:							
International financial agencies(1)							
Canadian dollar subscriptions	- 17	- 49	- 8	- 22	- 12	- 7	- 8
Short-term Canadian dollar holdings	- 43	98	7	33	54(2)	1	10
Other long-term capital transactions	12	- 110	22	6	- 127	26	- 15
Bank balances and other short-term funds abroad (excluding official reserves)	113	78	72	49	- 245	257	17
Borrowings from non-residents by finance companies, and non-resident holdings of commercial paper	112	140	19	28	25	35	52
All other transactions including changes in loans and accounts receivable and payable(3)	290	98	139	- 112	- 73	228	55
Total (Item D 17)	467	255	251	- 18	- 378	540	111

International Bank for Reconstruction and Development, International Monetary Fund, and International Development Association.
Excludes counterpart of special financial assistance to Canada which is included in D 15.
Includes also balancing item representing difference between direct measurements of current and capital accounts.

(ES: The figures in this statement are based on incomplete data, and make use in some cases of statistics compiled in other countries. The items are therefore subject to greater possible error than others in the balance of payments statement.
A minus sign indicates an outflow of capital from Canada.

Short-term Canadian dollar holdings of international financial agencies rose by \$98 million apart from the Canadian counterpart of the drawing by Canada from the IMF in the second quarter of 1960 million in terms of United States funds. The total included \$86 million in respect of the IMF, \$4 million in respect of the IBRD and \$8 million in respect of the IDA.

The net capital inflow from this group of transactions with international financial agencies, was \$49 million. Most of this reflected repayments of Canadian dollars to the IMF, from Australia in the first quarter and the United Kingdom in the second, equivalent to \$10 million and \$40 million in United States funds respectively.

Other long-term capital transactions shown in the supplementary statement gave rise to a net capital outflow of \$110 million in 1962 compared with a net inflow of \$12 million in 1961. On balance the item largely reflected repayment of bank loans which were financed from the sale to non-residents of a new corporate bond issue. Other long-term capital transactions, whose net effect was small, included transfers by insurance companies, the net extension of medium and long-term export credits, payments under the stretch-out agreements for uranium production, and a variety of bank loans.

Changes in private and chartered bank holdings of foreign currency, bank balances and other short-term funds abroad led to a net capital inflow of \$78 million over 1962, following one of \$113 million in 1961. With two exceptions there were outflows of Canadian capital to increase foreign currency positions in each earlier year since World War II, and year-end holdings reached a peak of about \$1.2 billion in 1960. There were dramatic changes in this type of capital movement during 1962. An inward capital movement of \$49 million in the first quarter swung to an outflow of \$245 million in the second as the private sector greatly increased its exchange position. With the restoration of confidence this position was sharply reduced, giving rise to capital inflows of \$257 million and \$17 million in the third and fourth quarters respectively. The movements of Canadian-owned bank balances and other short-term funds in foreign currencies in the second and third quarters were unprecedented in size.

Resources made available to Canada through borrowings from non-residents by finance companies and the sale of commercial and finance paper amounted to \$140 million, compared with \$112 million in 1961. Both these figures set new records.

The net export credits extended by Canada directly or indirectly under guarantee or at risk of the Government of Canada, as measured for balance of payments purposes, amounted to about \$95 million in 1962 compared with \$130 million in 1961. The net capital outflows originating from these trade credits are smaller because some paper is rediscounted with non-residents or into Canadian banking assets abroad, while additional amounts are financed by borrowing abroad; these types of financing are estimated to have accounted for about three-quarters of the total in 1962 and about two-fifths in 1961. The remaining net movements appear in the items of "other capital movements" appropriate to their term.

In addition to the short-term element of export credits, the final category of "all other capital movements" includes a wide variety of changes in other loans and accounts receivable and payable and the balancing item representing the difference between direct measurements of the current and capital accounts. The net balance from these items in 1962 was an inflow of \$98 million, made up of outflows aggregating \$185 million in the first half of the year and inflows of \$283 million in the second.

EXCHANGE RATE A new level for the Canadian dollar was established on the international exchange markets during 1962. The last quotation for the United States dollar reported on transactions between banks in the Canadian exchange market was 107.72 cents. At the end of 1961 it was 104.34 cents, rising by the end of the first quarter of 1962 to 105.00 cents. From

January through April when the demand for foreign exchange exceeded the supply, the Government provided a substantial volume of United States dollars to the market at a price of about \$1.05. On May 2 the Minister of Finance announced the formal establishment, with the concurrence of the International Monetary Fund, of the international exchange rate of the Canadian dollar at 92 1/2 cents in terms of United States currency which the Government of Canada undertook to maintain within the normal margin of one per cent on either side. The rate for the United States dollar in Canada reached a high of 109.00 cents in May and again in June but, following the measures taken at that time, it fell to 108.19 cents at the end of the month. In the third quarter the trading range was 0.53 cents and the United States dollar closed at 107.66 cents. In the final quarter of the year the trading range was only 0.28

United States Dollar in Canada					
Period		High	Low	Close	Noon average
Canadian cents					
1961	I Q	99.69	98.25	98.91	98.99
	II Q	103.53	98.59	103.50	99.42
	III Q	104.00	103.00	103.00	103.21
	IV Q	104.37	103.00	104.34	103.61
1962	I Q	105.03	104.34	105.00	104.77
	II Q	109.00	104.87	108.19	107.42
	III Q	108.19	107.66	107.66	107.78
	IV Q	107.81	107.53	107.72	107.63

cents and the closing quotation for the United States dollar was 107.72 cents.

The Canadian Balance of International Payments and International Investment Position

The annual DBS report, "The Canadian Balance of International Payments 1962 and International Investment Position," (Catalogue No. 67-201) will provide greater detail and analysis of the transactions outlined in this report, as well as recent estimates of foreign investment in Canada and of Canadian investment abroad.

TABLE 1. Current and Capital Account of the Canadian Balance of International Payments, 1960 and 1961

Note: This table, to be included in the annual report for 1961, contains revisions made since the third quarter report to lines D17, E and G for the United States and for "all other countries" for 1961.

No.	Account	All countries		United States		United Kingdom		Other sterling area		Other OEEC countries		All other countries	
		1960	1961 ^P	1960	1961 ^P	1960	1961 ^P	1960	1961 ^P	1960	1961 ^P	1960	1961 ^P
		millions of dollars											
A	Current receipts:												
1	Merchandise exports (adjusted)	5,392	5,889	3,040	3,213	924	924	340	331	591	618	497	803
2	Mutual Aid to NATO countries	43	35	..	..	..	..	..	..	..	..	..	..
3	Gold production available for export	162	162	162	162	—	—	—	—	—	—	—	—
4	Travel expenditures	420	482	375	435	20	21	6	7	13	13	6	6
5	Interest and dividends	173	209	102	109	32	34	18	43	12	13	9	10
6	Freight and shipping	442	486	220	230	93	100	31	27	57	67	41	62
7	Inheritances and immigrants' funds	102	103	50	51	26	25	6	6	15	15	5	6
11	All other current receipts	419	403	330	310	50	49	8	10	19	21	12	13
12	Total current receipts	7,153	7,769	4,279	4,510	1,145	1,153	409	424	707	747	570	900
B	Current payments:												
1	Merchandise imports (adjusted)	5,540	5,716	3,713	3,828	611	593	284	298	371	416	561	581
4	Travel expenditures	627	642	462	459	70	71	14	21	65	72	16	19
5	Interest and dividends	653	770	531	642	83	86	1	1	36	39	2	2
6	Freight and shipping	533	568	324	333	89	93	4	4	99	114	17	24
7	Inheritances and emigrants' funds	181	174	141	134	25	23	2	4	11	11	2	2
9	Official contributions	61	56	—	—	3	—	42	49	4	1	12	6
10	Mutual Aid to NATO countries	43	35	..	..	..	..	..	..	..	..	..	..
11	All other current payments	758	790	469	500	98	100	19	20	135	125	37	45
12	Total current payments	8,396	8,751	5,640	5,896	979	966	366	397	721	778	647	679
	Balance on merchandise trade	- 148	+ 173	- 673	- 615	+ 313	+ 331	+ 56	+ 33	+ 220	+ 202	- 64	+ 222
	Balance on other transactions, excluding B9	- 1,034	- 1,099	- 688	- 771	- 144	- 144	+ 29	+ 43	- 230	- 232	- 1	+ 5
	Official contributions	- 61	- 56	—	—	- 3	—	- 42	- 49	- 4	- 1	- 12	- 6
C	Current account balance	- 1,243	- 982	- 1,361	- 1,386	+ 166	+ 187	+ 43	+ 27	- 14	- 31	- 77	+ 221
D	Capital account:												
	Direct investment:												
1	Direct investment in Canada	+ 650	+ 515	+ 446	+ 335	+ 115	+ 127	+ 6	+ 2	+ 82	+ 49	+ 1	+ 2
2	Direct investment abroad	- 50	- 80	- 19	- 26	- 14	- 14	- 3	- 29	- 16	+ 7	+ 2	- 18
	Canadian securities:												
3a	Trade in outstanding bonds and debentures	+ 3	+ 63	- 9	+ 76	- 13	- 12	—	—	+ 25	+ 1	—	- 2
3b	Trade in outstanding common and preference stocks	+ 51	+ 40	+ 56	+ 120	- 17	- 61	—	—	+ 12	- 19	—	—
4	New issues	+ 447	+ 533	+ 381	+ 473	+ 27	+ 25	—	—	+ 38	+ 20	+ 1	+ 15
5	Retirements	- 265	- 297	- 214	- 215	- 27	- 42	—	—	- 23	- 23	- 1	- 17
	Foreign securities:												
6	Trade in outstanding issues	- 19	- 5	+ 5	+ 6	- 2	- 9	—	—	- 1	- 2	- 21	—
7	New issues	- 18	- 37	- 13	- 18	—	- 2	- 1	- 13	—	—	- 4	- 4
8	Retirements	+ 18	+ 9	+ 12	+ 5	—	—	+ 1	+ 1	—	—	+ 5	+ 3
	Loans by Government of Canada:												
9	Drawings	—	—	—	—	—	—	—	—	—	—	—	—
10	Repayment of post-war loans	+ 32	+ 37	—	—	+ 17	+ 17	—	+ 5	+ 15	+ 15	—	—
13	Subscriptions in gold and U.S. dollars to international financial agencies	- 3	—	- 3	—	—	—	—	—	—	—	—	—
14	Change in Canadian dollar holdings of foreigners	+ 120	- 34	+ 60	- 23	+ 9	+ 1	- 3	+ 4	+ 7	+ 21	+ 47	- 37
16	Change in official holdings of gold, U.S. dollars and sterling (increase, minus) ..	+ 39	- 229	+ 39	- 227	—	- 2	—	—	—	—	—	—
17	Other capital movements	+ 238	+ 467	+ 285	+ 633	- 36	+ 23	- 9	- 7	+ 18	- 17	- 20	- 165
E	Net capital movement	+ 1,243	+ 982	+ 1,026	+ 1,139	+ 59	+ 51	- 9	- 37	+ 157	+ 52	+ 10	- 223
G	Balance settled by exchange transfers	—	—	+ 335	+ 247	- 225	- 238	- 34	+ 10	- 143	- 21	+ 67	+ 2
	Total financing of current account balance (item C)	+ 1,243	+ 982	+ 1,361	+ 1,386	- 166	- 187	- 43	- 27	+ 14	+ 31	+ 77	- 221

Notes:

- A2, B10 Mutual Aid is not included in figures for countries or areas, but is included in total receipts and total payments with all countries.
D A minus sign indicates an outflow of capital from Canada. Some capital transactions with other sterling area are included under the United Kingdom, and with other overseas countries under the United States.
D13 International Bank for Reconstruction and Development, International Monetary Fund, International Finance Corporation and International Development Association.
D17 Also includes balancing item representing unrecorded capital movements and errors and omissions.

Note: Data for 1962 are preliminary and

		1960	1961		
		IV	I	II	III
A	Current Receipts				
1	Merchandise exports (adjusted)	1,392	1,266	1,447	1,557
3	Gold production available for export	41	41	42	41
4	Travel expenditures	72	39	103	255
5	Interest and dividends	65	36	59	40
6	Freight and shipping	107	102	120	135
7	Inheritances and immigrants' funds	24	19	28	31
11	All other current receipts	101	103	103	99
12	Total Current Receipts	1,802	1,606	1,902	2,158
B	Current Payments				
1	Merchandise imports (adjusted)	1,392	1,260	1,478	1,419
4	Travel expenditures	127	129	168	220
5	Interest and dividends	190	204	174	170
6	Freight and shipping	141	116	142	151
7	Inheritances and emigrants' funds	50	35	43	49
9	Official contributions	24	13	8	15
11	All other current payments	191	186	200	196
12	Total Current Payments	2,115	1,943	2,213	2,220
	Balance on Merchandise Trade	-	+ 6	- 31	+ 138
	Balance on Other Transactions, excluding B 9	- 289	- 330	- 272	- 185
	Official Contributions	- 24	- 13	- 8	- 15
C	Current Account Balance	- 313	- 337	- 311	- 62
D	Capital Account				
	Direct Investment				
1	Direct investment in Canada	+ 139	+ 140	+ 158	+ 117
2	Direct investment abroad	- 9	- 29	- 21	- 12
	Canadian Securities				
3a	Trade in outstanding bonds and debentures	- 12	+ 31	+ 34	- 11
3b	Trade in outstanding common and preference stocks	+ 3	+ 13	+ 32	-
4	New issues	+ 40	+ 101	+ 190	+ 125
5	Retirements	- 93	- 73	- 92	- 29
	Foreign Securities				
6	Trade in outstanding issues	- 24	+ 3	-	+ 2
7	New issues	- 10	- 5	- 18	- 7
8	Retirements	+ 2	+ 2	+ 2	+ 3
	Loans by Government of Canada				
9	Drawings	-	-	-	-
10,11	Repayments	+ 25	+ 3	+ 7	-
13	Subscriptions in gold and U.S. dollars to international financial agencies	- 2	-	-	-
14	Change in Canadian dollar holdings of foreigners	+ 79	- 5	- 72	- 1
15	Special international financial assistance	-	-	-	-
16	Change in official holdings of gold and foreign exchange (increase, minus)	- 14	- 105	- 51	+ 62
17	Other capital movements	+ 189	+ 261	+ 142	- 187
E	Net Capital Movement	+ 313	+ 337	+ 311	+ 62

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports on B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance transactions, and business services.

data for 1961 are subject to revision.

1961	1962				Annual Totals				
IV	I	II	III	IV	1959	1960	1961	1962	
(millions of dollars)									
1,619	1,395	1,620	1,628	1,721	5,150	5,392	5,889	6,364	A
38	43	42	39	41	148	162	162	165	1
85	46	126	294	94	391	420	482	560	3
74	33	52	44	82	182	173	209	211	4
129	104	128	133	133	420	442	486	498	5
25	20	31	42	31	109	102	103	124	6
98	107	104	108	107	392	419	403	426	7
									11
2,068	1,748	2,103	2,288	2,209	6,792	7,110	7,734	8,348	12
									B
1,559	1,402	1,665	1,559	1,583	5,572	5,540	5,716	6,209	1
125	130	178	200	102	598	627	642	610	4
222	179	205	163	234	671	653	770	781	5
159	125	153	158	152	525	533	568	588	6
47	34	40	44	45	165	181	174	163	7
20	7	12	5	8	72	61	56	32	9
208	204	212	193	204	693	758	790	813	11
									12
2,340	2,081	2,465	2,322	2,328	8,296	8,353	8,716	9,196	
+ 60	- 7	- 45	+ 69	+ 138	- 422	- 148	+ 173	+ 155	
- 312	- 319	- 305	- 98	- 249	-1,010	-1,034	-1,099	- 971	
- 20	- 7	- 12	- 5	- 8	- 72	- 61	- 56	- 32	
- 272	- 333	- 362	- 34	- 119	-1,504	-1,243	- 982	- 848	C
									D
+ 100	+ 110	+ 80	+ 145	+ 190	+ 550	+ 650	+ 515	+ 525	1
- 18	- 30	- 30	- 15	- 25	- 80	- 50	- 80	- 100	2
+ 9	- 3	+ 4	+ 39	+ 24	+ 91	+ 3	+ 63	+ 64	3a
- 5	- 14	- 44	- 26	- 32	+ 110	+ 51	+ 40	- 116	3b
+ 117	+ 52	+ 200	+ 87	+ 369	+ 707	+ 447	+ 533	+ 708	4
- 103	- 70	- 68	- 48	- 109	- 258	- 265	- 297	- 295	5
- 10	- 32	- 37	- 9	- 5	- 32	- 19	- 5	- 83	6
- 7	- 2	- 4	- 5	- 5	- 13	- 18	- 37	- 16	7
+ 2	+ 5	+ 5	+ 5	+ 5	+ 12	+ 18	+ 9	+ 20	8
-	-	-	- 7	-	-	-	-	- 7	9
+ 27	+ 3	+ 7	+ 68	+ 51	+ 34	+ 32	+ 37	+ 129	10,11
-	-	-	-	- 1	- 59	- 3	-	- 1	13
+ 44	- 32	+ 34	- 54	+ 24	+ 13	+ 120	- 34	- 28	14
-	-	+ 707	-	- 377	-	-	-	+ 330	15
- 135	+ 364	- 114	- 686	- 101	+ 70	+ 39	- 229	- 537	16
+ 251	- 18	- 378	+ 540	+ 111	+ 360	+ 238	+ 467	+ 255	17
+ 272	+ 333	+ 362	+ 34	+ 119	+1,504	+1,243	+ 982	+ 848	E

NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.



QUARTERLY ESTIMATES OF THE CANADIAN
BALANCE OF INTERNATIONAL PAYMENTS
FIRST QUARTER 1963

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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FIRST QUARTER 1963

Canada's current account deficit in goods and services with other countries amounting to \$243 million in the first quarter of 1963 was \$90 million smaller than in the same period last year.

The balance on merchandise trade contributed \$69 million to the improvement, moving from a small deficit to a surplus of \$62 million, with a significant rise in the value of exports in particular to overseas countries, and a small rise in the value of imports. The deficit from non-merchandise transactions fell \$21 million to \$305 million, reflecting mainly a reduction of \$17 million in the net deficit on travel account. Over three-fifths of the current account deficit in the first quarter of 1963 originated in net payments of interest and dividends.

Capital in long term forms continued to come into Canada on a large scale. While the total in the first quarter was close to that of the fourth quarter of 1962, there were substantial changes in the composition. Direct investment inflows were sharply reduced from the earlier period when takeovers played a prominent role, and the regular and accelerated repayments to Canada on intergovernmental loans which contributed in the fourth quarter did not recur. Portfolio investment inflows, on the other hand, were up sharply, with increased new bond sales outside Canada and smaller repayments of outstanding debt. There were outflows of capital in short term forms, and official holdings of gold and foreign exchange were also increased.

Summary Statement

	1961	1962				1963
	IV Q	I Q	II Q	III Q	IV Q	I Q
	millions of dollars					
Merchandise trade balance	+ 60	- 7	- 45	+ 69	+ 138	+ 62
Deficit on non-merchandise transactions	- 332	- 326	- 317	- 103	- 257	- 305
Current account deficit	- 272	- 333	- 362	- 34	- 119	- 243
Capital movements:(1)						
Long term forms	+ 134	+ 25	- 14	+ 260	+ 447	+ 420
Short term forms	+ 273	- 56	- 217	+ 460	+ 150	- 110
Special international financial assistance	-	-	+ 707	-	- 377	-
Change in official holdings of gold and						
foreign exchange(2)	- 135	+ 364	- 114	- 686	- 101	- 67

(1) Excluding change in official holdings of gold and foreign exchange and special international financial assistance.

(2) Increase (-).

Export balance on merchandise trade

There was a significant export balance of \$62 million from merchandise trade in the first three months of 1963, which compared with a slight import balance in the same period of 1962 and a larger export balance in the fourth quarter of that year. Both exports and imports were at record high levels of values in the most recent period. Merchandise exports, adjusted for balance of payments use, totalled \$1,477 million, up \$82 million or nearly 6 per cent from \$1,395 million one year before. However, roughly a quarter of this growth was attributable to the rise in the price element. At the same time, merchandise imports increased only 1 per cent in value from \$1,402 million to \$1,415 million, but in this case the percentage increase in prices was much higher.

In comparison with the first quarter of last year there were larger exports this year of iron ore, aluminum, copper, lumber and plywood, pulp, agricultural machinery, automobiles and parts, aircraft instruments and natural gas. On the other hand, shipments of some other commodities were lower in the first quarter of 1963. These included aircraft, newsprint, lead and nickel, barley and oil seeds.

Commodity details for imports for the quarter are not yet available. Influencing the slight reduction in volume which seems to have occurred since the first quarter of last year, there have been such factors as the lower foreign exchange value of the Canadian dollar, and the continuation of many of the surcharges introduced in June 1962 which were not all removed until the end of the quarter.

Deficit from services and other non-merchandise items

After reaching a first quarter peak of \$343 million in 1961, net payments on non-merchandise transactions declined to \$326 million in 1962, and went further down to \$305 million in the March quarter of 1963. Contributing to the reduction in the deficit on "invisibles" between the opening quarters of 1962 and 1963 were lower net expenditures on travel, freight and shipping services, migrants' funds and inheritances, government expenditures, and larger receipts from gold production available for export. In contrast, net payments of interest and dividends and official contributions were moderately higher. A rise in receipts from non-resident visitors to Canada from \$46 million to \$50 million and a cut in the expenditures by Canadians abroad from \$130 million to \$117 million yielded a reduction of \$17 million in the deficit on the travel account from \$84 million to \$67 million in the first quarter of 1963. Most of this improvement was concentrated in transactions with the United States. A contraction in net payments for freight and shipping services from \$21 million to \$14 million resulted mainly from a gain of \$6 million in receipts. A \$4 million rise in immigrants' funds and inheritances partly offset by a slight increase in emigrants' funds and inheritances contributed to a reduction of \$3 million in the deficit. Increased receipts originated from more numerous immigrants in the first quarter of 1963, with higher per capita funds. A relative stability in receipts on government account and a decline in expenditures produced a small reduction in net payments. The value of gold production available for export increased from \$43 million to \$45 million.

Interest and Dividends: Payments

Period	Total	Interest	Dividends
	millions of dollars		
1960	653	239	414
1961	770	259	511
1962	781	285	496
1961 I Q	204	61	143
II Q	174	68	106
III Q	170	58	112
IV Q	222	72	150
1962 I Q	179	67	112
II Q	205	76	129
III Q	163	62	101
IV Q	234	80	154
1963 I Q	193	69	124

A larger rise of \$14 million in payments of interest and dividends than of \$10 million in receipts produced a widening in the deficit from \$146 million to \$150 million. Enhanced earnings of the Exchange Fund Account and higher receipts of dividends caused total receipts to rise from \$33 million to \$43 million. The \$14 million rise in payments of interest and dividends from \$179 million to \$193 million was derived from an increase in interest payments from \$67 million to \$69 million, combined with a gain in dividend payments from \$112 million to \$124 million. This increase was concentrated in dividend payments on direct investment, as a slight gain in payments on non-resident portfolio investment was more than counter-balanced by a small decline in net profits of unincorporated branches in Canada. Official contributions, which rose from \$7 million to \$13 million, in the March quarter of 1963 mainly due to larger shipments under the Colombo Plan, furnished a \$6 million offset against the reduction in the deficit on non-merchandise transactions. Changes in

receipts and payments for business services and of miscellaneous income were small and offsetting, except for a non-recurring receipt in 1962 of compensation for contract cancellation.

In the first quarter of 1963, net payments of interest and dividends accounted for nearly one-half of the deficit on "invisibles", about the same share as in the March quarter of 1961. In the corresponding period of 1962, the proportion attributable to interest and dividends was 45 per cent. At 22 per cent in the most recent quarter, the share of the non-merchandise deficit originating in travel expenditures was lower than that of 26 per cent for the same quarters in 1961 and 1962. The percentage deficits arising from shipping services and migrants' funds and inheritances were respectively more than 4 1/2 per cent and 3 1/2 per cent in the initial quarter of 1963, as compared with more than 6 per cent and 4 per cent one year earlier. A higher proportion, however, of over 35 per cent was ascribable to "miscellaneous current transactions", including official contributions, in the current period under review, as compared with 32 per cent and 28 per cent in the March quarters of 1962 and 1961.

Transactions by areas

Canada's transactions with overseas contributed wholly to the narrowing of the current account deficit by \$90 million from \$333 million to \$243 million in the first quarter of 1963. Transactions with the United Kingdom accounted for about two-thirds of the improvement, with a combination of larger merchandise exports and reduced imports. An expansion in exports to a variety of other overseas destinations contributed the other sizable element in the improvement. At the same time the current account deficit with the United States widened a little from \$343 million to \$350 million.

Canada's current account surplus with the United Kingdom expanded from \$6 million to \$68 million in the first quarter of 1963, exceeding the levels of \$39 million and \$28 million in the corresponding quarters of 1961 and 1960, respectively. Total exports of goods and services to the United Kingdom in the first three months of 1963 amounted to \$258 million, and imports totalled \$190 million. About 90 per cent of the \$62 million improvement in the surplus originated in merchandise trade, with the export balance doubling from \$55 million to \$111 million. Merchandise exports rose from \$192 million to \$214 million, while imports fell from \$137 million to \$103 million between the first quarters of 1962 and 1963. A substantial portion of the gain in exports was represented by metals, such as aluminum and copper, uranium, platinum and ores of base metal. Shipments of wheat, lumber, pulp and newsprint were larger, but exports of tobacco and aircraft were lower in the March quarter of 1963.

The reduction in the deficit on "invisibles" with the United Kingdom from \$49 million to \$43 million was derived from an improvement in the balance on freight account, offset in part by a minor increase in net payments of interest and dividends. Small and offsetting changes occurred within the account on miscellaneous current transactions, involving items such as government expenditures and miscellaneous income.

Quarterly Current Account Balances

	I Q	II Q	III Q	IV Q
	millions of dollars			
United States:				
1960	- 343	- 449	- 165	- 404
1961	- 433	- 435	- 151	- 367
1962	- 343	- 425	- 66	- 282
1963	- 350			
United Kingdom:				
1960	+ 28	+ 12	+ 48	+ 78
1961	+ 39	+ 27	+ 42	+ 79
1962	+ 6	+ 48	+ 49	+ 110
1963	+ 68			
Other countries:				
1960	- 11	- 40	- 10	+ 13
1961	+ 57	+ 97	+ 47	+ 16
1962	+ 4	+ 15	- 17	+ 53
1963	+ 39			

Between the initial quarters of 1962 and 1963, the surplus on current transactions with Other Countries rose from \$4 million to \$39 million, which compared with \$57 million for the first three months of 1961. Most of the improvement in the latest period resulted from a better than 10 per cent gain in exports from \$345 million to \$384 million, which was partly offset by a more modest increase in imports. This betterment in the merchandise trade balance was distributed fairly evenly among the component areas, Rest of the Sterling Area, the other OECD group and remaining countries. The deficit on non-merchandise transactions narrowed slightly with the latter two areas, but increased a little with the Rest of the Sterling Area, on account of larger Colombo Plan shipments.

With the United States, there was a slight widening in the deficit to \$350 million as the expansion in the trade deficit from \$136 million to \$155 million was only partly offset by a contraction of \$12 million in the non-merchandise deficit from \$207 million to \$195 million.

Total receipts from the United States on transactions in goods and services in the first quarter of 1963 amounted to \$1,149 million, while payments totalled \$1,499 million. Merchandise exports to the United States in the opening quarter of 1963 were estimated at \$879 million, up \$21 million or more than 2 per cent over the March quarter in 1962. At the same time imports rose \$40 million or 4 per cent to \$1,034 million.

Increases in exports were scattered over a variety of commodities, including petroleum and natural gas, iron ore, aluminum, machinery (principally agricultural), cattle, lumber, aircraft parts and tires. Exports of aircraft and newsprint recorded the sharpest reductions, the latter declining \$15 million from \$147 million to \$132 million, due to strikes affecting newspapers in cities in the eastern United States. Shipments of metals and minerals such as nickel, uranium and lead were lower. Commodity details covering imports during the first quarter of 1963 are not available.

Most of the \$12 million contraction in the non-merchandise deficit with the United States was attributable to the travel account. Receipts from American visitors rose \$3 million, while expenditures by Canadians visiting the United States were cut \$12 million. The value of gold production available for export advanced \$2 million and the deficit on migrants' funds and inheritances was reduced. On the other hand, slight increases were recorded in net payments of interest and dividends, shipping services and miscellaneous income.

Summary of Current Transactions with the United States
United Kingdom and Other Countries
First Quarter 1962 and 1963,
and Change between the Periods

First Quarter	1962	1963	Change	1962	1963	Change
millions of dollars						
All countries			United States			
Merchandise exports (adjusted)	1,395	1,477	+ 82	858	879	+ 21
Merchandise imports (adjusted)	1,402	1,415	+ 13	994	1,034	+ 40
Balance on merchandise trade	- 7	+ 62	+ 69	- 136	- 155	- 19
Other current receipts	353	377	+ 24	260	270	+ 10
Other current payments	679	682	+ 3	467	465	- 2
Balance on non-merchandise transactions	- 326	- 305	+ 21	- 207	- 195	+ 12
Total receipts	1,748	1,854	+ 106	1,118	1,149	+ 31
Total payments	2,081	2,097	+ 16	1,461	1,499	+ 38
Current account balance	- 333	- 243	+ 90	- 343	- 350	- 7
United Kingdom			Other countries			
Merchandise exports (adjusted)	192	214	+ 22	345	384	+ 39
Merchandise imports (adjusted)	137	103	- 34	271	278	+ 7
Balance on merchandise trade	+ 55	+ 111	+ 56	+ 74	+ 106	+ 32
Other current receipts	40	44	+ 4	53	63	+ 10
Other current payments	89	87	- 2	123	130	+ 7
Balance on non-merchandise transactions	- 49	- 43	+ 6	- 70	- 67	+ 3
Total receipts	232	258	+ 26	398	447	+ 49
Total payments	226	190	- 36	394	408	+ 14
Current account balance	+ 6	+ 68	+ 62	+ 4	+ 39	+ 35

Capital movements

Summary	1961	1962				1963
	IV Q	I Q	II Q	III Q	IV Q	I Q
millions of dollars						
Capital movements in long term forms	+ 134	+ 25	- 14	+ 260	+ 447	+ 420
Capital movements in short term forms(1) ...	+ 273	- 56	- 217	+ 460	+ 150	- 110
Balance on goods and services	- 272	- 333	- 362	- 34	- 119	- 243
Total of above	+ 135	- 364	- 593	+ 686	+ 478	+ 67
Special international financial assistance	-	-	+ 707	-	- 377	-
Change in official holdings of gold and foreign exchange(2)	- 135	+ 364	- 114	- 686	- 101	- 67

(1) Excluding change in official holdings of gold and foreign exchange and special international financial assistance.

(2) Increase (-).

DIRECT INVESTMENT The net inflow of foreign capital for direct investment in foreign-controlled enterprises in Canada is estimated to have totalled \$65 million in the first quarter. At this level the inward movement was down sharply both from the preceding quarter's total of \$190 million and the corresponding total of \$110 million in the first quarter of 1962. The wide variations reflected mainly the incidence of takeover and refinancing transactions, and the inflows apart from these were of the same general order of magnitude in each.

Mining operations attracted the largest share of the net inward movement in the quarter, despite some outflows to acquire non-resident-owned interests. Inflows to the petroleum and natural gas industry contracted sharply, reflecting the absence of large transfers of funds in connection with takeover transactions which were a feature last year. The changing organization of the industry and its development might be expected to call for smaller capital inflows.

The net outflow of Canadian capital for direct investment abroad is placed at \$15 million, compared with \$25 million in the preceding quarter. A significant part of the total represented the acquisition of existing interests outside Canada.

SECURITY TRANSACTIONS		The net capital inflow arising from transactions in bonds and stocks between Canada and other countries during the first quarter of 1963 set a new high level of \$359 million. This figure was more than one hundred million dollars above the total for the fourth quarter and more than seventy-five million dollars above the total for 1962. The proceeds of new issues of Canadian securities sold to non-residents amounted to \$435 million. This total included \$197 million from sales of new provincial issues, \$140 million from sales of Government of Canada issues (including the final delivery of \$125 million of United States dollar bonds sold to institutions in that country in the third quarter of 1962), \$65 million of corporate issues and \$33 million of municipal issues. Retirements of foreign-held Canadian securities during the first quarter of 1963 involved payment of \$46 million to non-residents. Arrangements for the sale to non-residents of new Canadian issues have outpaced deliveries, and at the end of the quarter undelivered sales to residents of the United States of new Canadian bonds and debentures aggregated \$401 million. These sales will be recorded in the balance of payments statements at the time of delivery.	
New Issues of Canadian Bonds Sold to United States Residents		Contracts	Deliveries
		millions of dollars	
Period			
1961	Year	355	437
1962	Year	942	665
1962	I Q	138	38
	II Q	78	194
	III Q	368	78
	IV Q	358	355
1963	I Q	528	425

Net Sales of Outstanding Canadian Stocks
to Non-residents

Quarter		Total	United States	Other countries
millions of dollars				
1961	I Q	13	21	- 8
	II Q	32	45	- 13
	III Q	-	22	- 22
	IV Q	- 5	32	- 37
1962	I Q	- 14	15	- 29
	II Q	- 44	- 3	- 41
	III Q	- 26	- 6	- 20
	IV Q	- 32	- 18	- 14
1963	I Q	- 57	- 30	- 27

In general the pattern of trading between Canada and other countries of outstanding Canadian securities was similar to that in the last half of 1962. There were net inflows of \$23 million from trade in outstanding Canadian bonds and debentures, mainly Government of Canada issues. Net outflows for the repurchase of outstanding Canadian stocks reached \$57 million. Repurchase balances have been typical each quarter since the fall of 1961 but some rather special influences may have contributed in the quarter under review. These included the possibility of shifts in the ownership from non-residents to residents of some utility and industrial issues in anticipation of the completion of takeovers. There are also understood to have been large sales to non-residents of oil stock and repurchases from non-residents of railway stock.

Transactions between Canada and other countries in foreign securities produced \$ 4 million in the first quarter.

OTHER CAPITAL MOVEMENTS Canadian dollar holdings of foreigners fell by \$22 million in the first quarter of 1963, following a slightly larger increase in the preceding quarter. Non-residents increased their holdings of Canadian treasury bills by \$9 million but reduced their deposits and similar holdings by \$31 million. About two-thirds of the net change was in holdings of residents of the United States.

Change in Canadian Dollar Holdings
of Foreigners

Quarter		Total	Treasury bills	Deposits etc.
millions of dollars				
1961	IV	+ 44	+ 18	+ 26
1962	I	- 32	+ 18	- 50
	II	+ 34	+ 50	- 16
	III	- 54	- 3	- 51
	IV	+ 24	- 61	+ 85
1963	I	- 22	+ 9	- 31

The largest capital movements shown separately in the supplementary statement covering "other capital movements" were an outflow of \$78 million to finance increased private and banking holdings of foreign exchange by residents, and an outflow of \$28 million from transactions in Canadian commercial paper, finance paper and other finance company obligations. Figures showing the composition of the latter total are available for the first time and indicate net repayments on account of commercial paper and net sales of finance paper. The net movement arose from receipts of \$127 million and payments of \$155 million. Apart from transactions of these types, transactions between Canada and other countries in Government of Canada treasury bills involved receipts of \$72 million and payments of \$63 million, and there were sales under buy-back arrangements of

\$13 million of Government of Canada securities having an original term over one year, offset by slightly larger repurchases.

These international transactions having for the most part a money market character involved receipts by Canada in the quarter of \$212 million and payments of about \$231 million. Further international receipts of \$710 million from transactions in bonds and stocks, and payments of \$351 million, as well as a net increase of \$103 million in issues sold but as yet undelivered, indicate the very substantial volume of security and money market movements across our borders.

Other capital movements as yet unmentioned included an inflow of \$11 million from transactions in long-term forms not shown separately, an inflow of \$1 million arising from transactions of the international financial transactions, and an inflow of \$17 million from all other transactions, apart from changes in official holdings of gold and foreign exchange.

Composition of "Other Capital Movements"
(A minus sign indicates an outflow of capital from Canada)

Transactions with all countries	1962	1962				1963
	Year	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
millions of dollars						
International financial agencies(1)						
Canadian dollar subscriptions	- 49	- 22	- 12	- 7	- 8	-
Short-term Canadian dollar holdings	98	33	54(2)	1	10	1
Long-term capital transactions n.i.e.	- 110	6	- 127	26	- 15	11
Bank balances and other short-term funds abroad (excluding official reserves)	78	49	- 245	257	17	- 78
Canadian commercial paper						(- 39
Canadian finance paper	140	28	25	35	52	(14
Canadian finance company obligations)						(
n.i.e.						(- 3
All other transactions including changes in loans and accounts receivable and payable(3)	98	- 112	- 73	228	55	17
Total (Item D 17)	255	- 18	- 378	540	111	- 77

- (1) International Bank for Reconstruction and Development, International Monetary Fund, and International Development Association.
(2) Excludes counterpart of special financial assistance to Canada which is included in D 15.
(3) Includes also balancing item representing difference between direct measurements of current and capital accounts.

The capital outflow representing Canada's increased official holdings of gold and foreign exchange totalled \$67 million in the first quarter. Most of this represented increased holdings of gold and United States dollars which rose, in United States dollar terms, from \$2,539 million to \$2,600 million.

Official Holdings of
Gold and United States dollars

United States Dollar in Canada

End of		Amount	Change in period	Period		High	Low	Close	Noon average
		millions of U.S.A. dollars				Canadian cents			
1961	IV Q	2,056	+ 132	1961	IV Q	104.37	103.00	104.34	103.61
1962	I Q	1,709	- 346	1962	I Q	105.03	104.34	105.00	104.77
	II Q	1,809(1)	+ 99		II Q	109.00	104.87	108.19	107.42
	III Q	2,445(1)	+ 636		III Q	108.19	107.66	107.66	107.78
	IV Q	2,539(2)	+ 95		IV Q	107.81	107.53	107.72	107.63
1963	I Q	2,600(2)	+ 61	1963	I Q	107.94	107.59	107.81	107.76
	January	2,662(2)	+ 123						
	February	2,594(2)	- 69						
	March	2,600(2)	+ 6						

- (1) Includes (+) 650 special international financial assistance.
(2) Includes (+) 300 special international financial assistance.

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1962
1963 are preliminary and

		1 9 6 1			
		I	II	III	IV
A	Current Receipts				
1	Merchandise exports (adjusted)	1,266	1,447	1,557	1,619
3	Gold production available for export	41	42	41	38
4	Travel expenditures	39	103	255	85
5	Interest and dividends	36	59	40	74
6	Freight and shipping	102	120	135	129
7	Inheritances and immigrants' funds	19	28	31	25
11	All other current receipts	103	103	99	98
12	Total Current Receipts	1,606	1,902	2,158	2,068
B	Current Payments				
1	Merchandise imports (adjusted)	1,260	1,478	1,419	1,559
4	Travel expenditures	129	168	220	125
5	Interest and dividends	204	174	170	222
6	Freight and shipping	116	142	151	159
7	Inheritances and emigrants' funds	35	43	49	47
9	Official contributions	13	8	15	20
11	All other current payments	186	200	196	208
12	Total Current Payments	1,943	2,213	2,220	2,340
	Balance on Merchandise Trade	+ 6	- 31	+ 138	+ 60
	Balance on Other Transactions, excluding B 9	- 330	- 272	- 185	- 312
	Official Contributions	- 13	- 8	- 15	- 20
C	Current Account Balance	- 337	- 311	- 62	- 272
D	Capital Account				
	Direct Investment				
1	Direct investment in Canada	+ 140	+ 158	+ 117	+ 100
2	Direct investment abroad	- 29	- 21	- 12	- 18
	Canadian Securities				
3a	Trade in outstanding bonds and debentures	+ 31	+ 34	- 11	+ 9
3b	Trade in outstanding common and preference stocks	+ 13	+ 32	-	- 5
4	New issues	+ 101	+ 190	+ 125	+ 117
5	Retirements	- 73	- 92	- 29	- 103
	Foreign Securities				
6	Trade in outstanding issues	+ 3	-	+ 2	- 10
7	New issues	- 5	- 18	- 7	- 7
8	Retirements	+ 2	+ 2	+ 3	+ 2
	Loans by Government of Canada				
9	Drawings	-	-	-	-
10,11	Repayments	+ 3	+ 7	-	+ 27
13	Subscriptions in gold and U.S. dollars to international financial agencies	-	-	-	-
14	Change in Canadian dollar holdings of foreigners	- 5	- 72	- 1	+ 44
15	Special international financial assistance	-	-	-	-
16	Change in official holdings of gold and foreign exchange (increase, minus)	- 105	- 51	+ 62	- 135
17	Other capital movements	+ 261	+ 142	- 187	+ 251
E	Net Capital Movement	+ 337	+ 311	+ 62	+ 272

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports on B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance transactions, and business services.

BALANCE OF INTERNATIONAL PAYMENTS

data for 1961 are subject to revision.

1962				1963	Annual Totals		Four Quarters ended		
I	II	III	IV	I	1960	1961	1962	March 31, 1963	
(millions of dollars)									
1,395	1,620	1,628	1,721	1,477	5,392	5,889	6,364	6,446	A
43	42	39	41	45	162	162	165	167	1
46	126	294	94	50	420	482	560	564	3
33	52	44	82	43	173	209	211	221	4
104	128	133	133	110	442	486	498	504	5
20	31	42	31	24	102	103	124	128	6
107	104	108	107	105	419	403	426	424	7
									11
1,748	2,103	2,288	2,209	1,854	7,110	7,734	8,348	8,454	12
									B
1,402	1,665	1,559	1,583	1,415	5,540	5,716	6,209	6,222	1
130	178	200	102	117	627	642	610	597	4
179	205	163	234	193	653	770	781	795	5
125	153	158	152	124	533	568	588	587	6
34	40	44	45	35	181	174	163	164	7
7	12	5	8	13	61	56	32	38	9
204	212	193	204	200	758	790	813	809	11
									12
2,081	2,465	2,322	2,328	2,097	8,353	8,716	9,196	9,212	
- 7	- 45	+ 69	+ 138	+ 62	- 148	+ 173	+ 155	+ 224	
- 319	- 305	- 98	- 249	- 292	-1,034	-1,099	- 971	- 944	
- 7	- 12	- 5	- 8	- 13	- 61	- 56	- 32	- 38	
- 333	- 362	- 34	- 119	- 243	-1,243	- 982	- 848	- 758	C
									D
+ 110	+ 80	+ 145	+ 190	+ 65	+ 650	+ 515	+ 525	+ 480	1
- 30	- 30	- 15	- 25	- 15	- 50	- 80	- 100	- 85	2
- 3	+ 4	+ 39	+ 24	+ 23	+ 3	+ 63	+ 64	+ 90	3a
- 14	- 44	- 26	- 32	- 57	+ 51	+ 40	- 116	- 159	3b
+ 52	+ 200	+ 87	+ 369	+ 435	+ 447	+ 533	+ 708	+1,091	4
- 70	- 68	- 48	- 109	- 46	- 265	- 297	- 295	- 271	5
- 32	- 37	- 9	- 5	+ 5	- 19	- 5	- 83	- 46	6
- 2	- 4	- 5	- 5	- 6	- 18	- 37	- 16	- 20	7
+ 5	+ 5	+ 5	+ 5	+ 5	+ 18	+ 9	+ 20	+ 20	8
-	-	- 7	-	-	-	-	- 7	- 7	9
+ 3	+ 7	+ 68	+ 51	-	+ 32	+ 37	+ 129	+ 126	10,11
-	-	-	- 1	-	- 3	-	- 1	- 1	13
- 32	+ 34	- 54	+ 24	- 22	+ 120	- 34	- 28	- 18	14
-	+ 707	-	- 377	-	-	-	+ 330	+ 330	15
+ 364	- 114	- 686	- 101	- 67	+ 39	- 229	- 537	- 968	16
- 18	- 378	+ 540	+ 111	- 77	+ 238	+ 467	+ 255	+ 196	17
+ 333	+ 362	+ 34	+ 119	+ 243	+1,243	+ 982	+ 848	+ 758	E

NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.

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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS SECOND QUARTER 1963

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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

SECOND QUARTER 1963

Canada's current account deficit covering net purchases from non-residents of goods and services contracted in the second quarter to \$193 million. In the corresponding quarter of 1962, when there was probably some acceleration of payments coincidentally with concern over Canada's foreign exchange position, the deficit on current account was \$362 million. A year earlier it had been \$311 million.

The reduction of the imbalance from the second quarter of 1962 amounted to \$169 million of which more than two-thirds reflected an improvement in the commodity balance caused largely by a significant increase of \$145 million in exports. The balance of the reduction occurred in the non-merchandise items with receipts larger by \$28 million and payments smaller by \$24 million; half this improvement occurred in the travel account.

Capital in long term forms continued to come into Canada on a large scale, although the flows both for direct investment and for portfolio investment were smaller than in the first quarter. The largest part of the net movement in the second quarter covered receipts from the sale of new security issues to non-residents in earlier periods for delivery in the second quarter. Official holdings of gold and foreign exchange continued to grow during the first two months of the quarter, but declined moderately over the month of June.

Summary Statement

	1962				1963	
	I Q	II Q	III Q	IV Q	I Q	II Q
	millions of dollars					
Merchandise trade balance	- 7	- 45	+ 69	+ 138	+ 63	+ 72
Deficit on non-merchandise transactions	- 326	- 317	- 103	- 257	- 309	- 265
Current account deficit	- 333	- 362	- 34	- 119	- 246	- 193
Capital movements:(1)						
Long term forms	+ 16	- 16	+ 248	+ 445	+ 384	+ 236
Short term forms	- 47	- 215	+ 472	+ 152	- 72	+ 68
Special international financial assistance	-	+ 707	-	- 377	-	-
Change in official holdings of gold and						
foreign exchange(2)	+ 364	- 114	- 686	- 101	- 66	- 111

1) Excluding change in official holdings of gold and foreign exchange and special international financial assistance.

2) Increase (-).

The quarter was one of continued economic advance in both Canada and her leading trading partners. This was also the first period free of the surcharges on certain imports which had been introduced in June 1962, following the removal at the end of the first quarter 1963 of the remaining group of commodities subject to these taxes. There was also a reduction in the bank rate during the period. And in making comparisons with the second quarter 1962, it should be recalled that that was the period of large declines in exchange reserves, when a programme was introduced to stabilize Canada's international transactions and to strengthen the reserves. The second quarter of last year was also a period of rapid exchange rate changes in which the rate for the Canadian dollar was stabilized early in May, and consequently the average rates of exchange in the second quarters of the two years were relatively close. The June quarter of this year was also the period in which a change in government in Canada took place, followed by the introduction of a new budget with a programme designed to influence the balance of payments.

Export balance on merchandise trade

Nearly 70 per cent of the \$169 million improvement in Canada's current account balance with foreign countries originated in merchandise trade, as a deficit of \$45 million in the second quarter of 1962 turned into a surplus of \$72 million in the same period of 1963. After adjustment for balance of payments purposes, exports advanced \$145 million, or 9 per cent, from \$1,620 million to \$1,765 million, while imports increased under 2 per cent from \$1,665 million to \$1,693 million in the June quarter of 1963. Nickel shipments accounted for more than one-fifth of the substantial rise in exports, and other commodities which also contributed to the increment included wheat, lumber, aluminum, crude petroleum and a variety of products of secondary manufacturing.

Taking the first two quarters of the year together, merchandise exports were up \$226 million, or more than 7 per cent, to \$3,241 million. Imports also increased, but at a less vigorous rate, from \$3,067 million to \$3,106 million in the first half of 1963. An import balance of \$52 million was converted into a surplus of \$135 million. Led by exports of nickel and aluminum, which were about \$25 million and \$19 million higher, respectively, shipments of other metals and minerals, including iron ore, copper, petroleum and natural gas, were also up in the 6 months of 1963. Agricultural and non-farm machinery, including specialized control equipment, was another group whose value was noticeably higher. Exports of wheat, lumber, wood pulp, fertilizers, railway rolling stock and road motor vehicles were also larger, but shipments of barley, newsprint and aircraft were down from the first half of 1962.

The removal of the remaining import surcharges at the end of the first quarter was a factor likely to have been of some significance in the increased volume of goods imported in the second quarter in comparison with immediately preceding quarters. But details are not available to make feasible an assessment of the effects.

A gain of nearly \$50 million in imports of automobile parts was the most significant increase, on the basis of detailed record for the first 5 months of 1963, but the decline in arrival of automobiles was even more substantial. Increased imports were noted in the cases of sugar, vegetables, meat, farm machinery, engines and crude petroleum, while imports of cotton, non-farm machinery and aircraft were reduced.

In an over-the-year comparison, a 2 per cent rise occurred in export prices in the first quarter followed by a fractional increase in the second quarter. Import prices rose more than 3 per cent in the March quarter and the gain in the succeeding period was estimated to have been somewhat smaller. Notwithstanding the relatively minor importance of sugar among import commodities, the sharp rise in the price of sugar on the world market left its impact on the average price level in the second quarter. In consequence, a deterioration occurred in Canada's terms of trade.

Deficit on services and non-merchandise items

The deficit of \$265 million on non-merchandise transactions in the second quarter of 1963 was \$52 million, or about 16 per cent, below that of the same period of 1962. For the most part, this reduction originated in the travel account, interest and dividends and in "miscellaneous current transactions".

Travel Account

	First Half Year			
	1960	1961	1962	1963
	millions of dollars			
United States:				
Receipts	106	120	149	159
Payments	222	222	230	192
Balance	- 116	- 102	- 81	- 33
Overseas:				
Receipts	21	22	23	23
Payments	65	75	78	83
Balance	- 44	- 53	- 55	- 60
All Countries:				
Balance	- 160	- 155	- 136	- 93

million. The reduction in the deficit was due to a drop in payments, from \$205 million to \$191 million, together with a slight increase in receipts. Payments of interest rose from \$76 million to \$89 million, while transfers of dividends fell more than 20 per cent from \$129 million to \$102 million. Contributing

Interest and Dividends: Payments

Period		Total	Interest	Dividends
		millions of dollars		
1960		653	239	414
1961		770	259	511
1962		781	285	496
1961	III Q	170	58	112
	IV Q	222	72	150
1962	I Q	179	67	112
	II Q	205	76	129
	III Q	163	62	101
	IV Q	234	80	154
1963	I Q	194	70	124
	II Q	191	89	102

duced transfers to international agencies while receipts on government account were moderately larger. Changes in net payments of personal and institutional remittances, for business services and of miscellaneous income were small and offsetting.

With increases of similar magnitude in receipts and payments, the deficit on freight and shipping services slipped down \$1 million to \$24 million in the June quarter of 1963, while net payments of migrants' funds and inheritances remained unchanged between the two periods at \$9 million. The value of gold production available for export at \$41 million was smaller by \$1 million.

In a comparison of the first six months of 1962 and 1963, the deficit on non-merchandise transactions narrowed more than 10 per cent from \$643 million to \$574 million. Nearly every item among the "invisibles" contributed to this improvement, with the exception of official contributions, business services and miscellaneous income, whose net payments increased moderately. About three-fifths of the reduction in the deficit on service transactions was derived from the travel account, where receipts rose \$10 million to \$182 million and payments fell from \$308 million to \$275 million. The travel deficit of \$160 million in the first half of 1960 has been progressively lessened to that of \$93 million

Net payments on travel account were halved to \$26 million in the quarter, as payments declined more than 10 per cent while receipts rose slightly between the second quarters of 1962 and 1963. Travel receipts were estimated at \$126 million and \$132 million in the two periods, while payments fell from \$178 million to \$158 million. The effects of the stabilization of the Canadian dollar at a lowered value in terms of foreign currency continued to be felt, as did the additional restriction in June 1962 to the privilege of duty-free purchases by Canadians abroad. Travel receipts from overseas visitors remained just about unchanged, while expenditures in Canada by American visitors rose moderately. A fall of nearly 20 per cent in travel disbursements by Canadians in the United States was offset by a slight rise in Canadian expenditures overseas.

Net payments of interest and dividends narrowed by \$16 million, or 10 per cent, to \$137 million. The decline in dividend payments was primarily due to a drop of about 30 per cent in transfers on direct investment, as dividend payments on portfolio investments and transfers of profits of unincorporated branches in Canada remained materially unchanged between the second quarters of 1962 and 1963. True to the variegated pattern of dividend remittances characteristic of subsidiaries in Canada, a number of these paid substantial dividends in the second quarter of 1962, but did not pay or greatly reduced their payments in the June quarter of 1963, or paid in the preceding quarter.

An improvement of \$10 million in the deficit on government expenditures tallied with the reduction in the deficit for the whole group of miscellaneous current transactions, including official contributions. The latter item declined from \$12 million to \$10 million. Other government expenditures were slightly lower with re-

in the corresponding period of 1963. The reductions of about 12 per cent in 1961 and more than 20 per cent in 1962 in the deficit with the United States was accelerated to that of about 60 per cent in

Major Components of the Balance on Non-Merchandise Transactions with All Countries

	First Half Year		
	1962	1963	Change
	millions of dollars		
Gold production available for export	85	86	+ 1
Travel expenditures	- 136	- 93	+ 43
Interest and dividends	- 299	- 288	+ 11
Freight and shipping	- 46	- 38	+ 8
Inheritances and migrants' funds	- 23	- 22	+ 1
All other current transactions	- 224	- 219	+ 5
Balance on non-merchandise transactions	- 643	- 574	+ 69

1963. On the other hand net travel payments to overseas countries averaged \$53 million in the period under comparison, and rose \$5 million to \$60 million in the first two quarters of 1963. Accordingly in the latest period, the overseas deficit on travel account became larger for the first time in the four years than that with the United States. An \$11 million decline in net payments of interest and dividends to \$288 million was mainly due to increased earnings on official account. A rise in receipts on freight and shipping services from \$232 million to \$246 million, larger than that in payments from \$278 million to \$284 million, had the effect of lightening the deficit from \$46 million to \$38 million. The Canadian Government raised payments of official contributions \$6 million to \$25 million. As a result of the substantial contraction in net payments on travel account, its share of the deficit on "invisible" transactions fell from 21 per cent in the half year 1962 to 16 per cent in the same period in 1963. At the same time the proportion ascribable to interest and dividends rose from more than 46 per cent to 50 per cent, notwithstanding the absolute decline in the deficit on interest and dividends mentioned before.

Transactions by areas

Over two-fifths of the narrowing in the current account deficit in the second quarter of 1963 took place in Canada's transactions with the United States, more than one-third with the United Kingdom and the remaining one-fifth with other countries. Within the latter group most of the improvement originated in transactions with the Rest of the Sterling Area.

The reduction in the current account deficit with the United States from \$425 million to \$351 million resulted from a better than 6 per cent gain in total receipts on goods and services from \$1,281 million to \$1,363 million and a fractional increase in total payments to \$1,714 million in the second quarter of 1963. A rise in exports, in part offset by that in imports less than one-half as large, accounted for somewhat over 40 per cent of the decline in the current account deficit, while larger receipts together with lowered payments for services contributed the remainder. As referred to before in comments on non-merchandise transactions with all countries, increases in receipts on travel and income accounts and decreases in payments for travel, interest and dividends were to a considerable extent responsible for the improvement in the deficit on non-merchandise transactions with the United States.

With the United Kingdom about an 11 per cent increment in total receipts from \$296 million to \$330 million and a similar percentage decline in payments from \$248 million to \$221 million combined to more than double the current account surplus with that country from \$48 million to \$109 million. Most of this gain was attributable to merchandise trade, with exports increasing more than 12 per cent to \$268 million and imports declining about the same percentage to \$140 million.

The entire rise in the current account surplus with other countries originated in merchandise trade, with a sizable growth in exports, including manufactured materials and products, which was offset by a much smaller increase in imports.

In a comparison of first half-year balances in the Sixties, the current account deficit with the United States has been narrowing, with the exception of the first six months of 1961. With overseas countries movements in balances have been more irregular. Following a deficit in 1960, which was ascribable to overseas countries other than the United Kingdom, surpluses have been recorded with this area and with the United Kingdom. The largest surplus occurred in transactions with the United Kingdom in the first half of 1963 and with other countries in the same period of 1961.

Summary of Current Transactions with the United States,
United Kingdom and other Countries 1962 and 1963,
and Change between the Periods

	1962	1963	Change	1962	1963	Change
	millions of dollars					
	All countries			United States		
<u>Second quarter</u>						
Merchandise exports (adjusted)	1,620	1,765	+ 145	945	1,002	+ 57
Merchandise imports (adjusted)	1,665	1,693	+ 28	1,136	1,162	+ 26
Balance on merchandise trade	- 45	+ 72	+ 117	- 191	- 160	+ 31
Other current receipts	483	511	+ 28	336	361	+ 25
Other current payments	800	776	- 24	570	552	- 18
Balance on non-merchandise transactions	- 317	- 265	+ 52	- 234	- 191	+ 43
Total receipts	2,103	2,276	+ 173	1,281	1,363	+ 82
Total payments	2,465	2,469	+ 4	1,706	1,714	+ 8
Current account balance	- 362	- 193	+ 169	- 425	- 351	+ 74
<u>January to June</u>						
Merchandise exports (adjusted)	3,015	3,241	+ 226	1,803	1,881	+ 78
Merchandise imports (adjusted)	3,067	3,106	+ 39	2,130	2,193	+ 63
Balance on merchandise trade	- 52	+ 135	+ 187	- 327	- 312	+ 15
Other current receipts	836	895	+ 59	596	631	+ 35
Other current payments	1,479	1,469	- 10	1,037	1,024	- 13
Balance on non-merchandise transactions	- 643	- 574	+ 69	- 441	- 393	+ 48
Total receipts	3,851	4,136	+ 285	2,399	2,512	+ 113
Total payments	4,546	4,575	+ 29	3,167	3,217	+ 50
Current account balance	- 695	- 439	+ 256	- 768	- 705	+ 63
	United Kingdom			Other countries		
<u>Second quarter</u>						
Merchandise exports (adjusted)	238	268	+ 30	437	495	+ 58
Merchandise imports (adjusted)	160	140	- 20	369	391	+ 22
Balance on merchandise trade	+ 78	+ 128	+ 50	+ 68	+ 104	+ 36
Other current receipts	58	62	+ 4	89	88	- 1
Other current payments	88	81	- 7	142	143	+ 1
Balance on non-merchandise transactions	- 30	- 19	+ 11	- 53	- 55	- 2
Total receipts	296	330	+ 34	526	583	+ 57
Total payments	248	221	- 27	511	534	+ 23
Current account balance	+ 48	+ 109	+ 61	+ 15	+ 49	+ 34
<u>January to June</u>						
Merchandise exports (adjusted)	430	481	+ 51	782	879	+ 97
Merchandise imports (adjusted)	297	243	- 54	640	670	+ 30
Balance on merchandise trade	+ 133	+ 238	+ 105	+ 142	+ 209	+ 67
Other current receipts	98	112	+ 14	142	152	+ 10
Other current payments	177	169	- 8	265	276	+ 11
Balance on non-merchandise transactions	- 79	- 57	+ 22	- 123	- 124	- 1
Total receipts	528	593	+ 65	924	1,031	+ 107
Total payments	474	412	- 62	905	946	+ 41
Current account balance	+ 54	+ 181	+ 127	+ 19	+ 85	+ 66

Between the first 6 months of 1962 and 1963, the deficit with the United States contracted \$63 million to \$705 million, the surplus with the United Kingdom showed a three-fold gain from \$54 million to \$181 million, and the surplus with other countries increased \$66 million to \$85 million.

Quarterly Current Account Balances

	I Q	II Q	III Q	IV Q
millions of dollars				
<u>United States:</u>				
1960	- 343	- 449	- 165	- 404
1961	- 433	- 435	- 151	- 367
1962	- 343	- 425	- 66	- 282
1963	- 354	- 351		
<u>United Kingdom:</u>				
1960	+ 28	+ 12	+ 48	+ 78
1961	+ 39	+ 27	+ 42	+ 79
1962	+ 6	+ 48	+ 49	+ 110
1963	+ 72	+ 109		
<u>Other countries:</u>				
1960	- 11	- 40	- 10	+ 13
1961	+ 57	+ 97	+ 47	+ 16
1962	+ 4	+ 15	- 17	+ 53
1963	+ 36	+ 49		

deficit with the United Kingdom fell \$22 million to \$57 million as a result of higher receipts and reduced payments on freight and shipping services, larger receipts of immigrants' funds and inheritances and lower net payments on government account.

The entire enlargement of \$66 million in the surplus with other countries originated in merchandise trade, as increases both in receipts and payments on "invisible" transactions offset one another. A jump of 35 per cent in shipments of Canadian commodities to the Rest of the Sterling Area, offset only in part by increased imports, accounted for more than one-half of the gain in the surplus with overseas countries other than the United Kingdom. A further improvement of nearly 40 per cent resulted from a moderate rise in exports plus a small decline in imports from the other OECD countries. An increase of about 8 per cent both in exports and imports, the former however being from a larger base from the remaining countries accounted for the remainder of the rise in the surplus on current transactions. Among countries in the Rest of the Sterling Area, the Republic of South Africa bought more than \$15 million worth of Canadian wheat in the first six months of 1963. Larger shipments were recorded to India of wheat, newsprint, copper and rails, among other commodities. Exports of metals were moderately higher to Pakistan, and increased shipments of motor vehicles and parts and electrical equipment left for Australia. Among countries in the remaining group, the largest increase of nearly \$30 million, or more than 25 per cent, occurred in exports to Japan, covering such commodities as wheat, oil seeds, lumber, pulp, copper and iron ore. Shipments of Canadian wheat to Mainland China fell nearly 25 per cent between the first halves of 1962 and 1963, but moderate-sized shipments of wheat to Czechoslovakia reappeared in the June quarter.

Capital Movements

The inflow of capital into Canada in long term forms has moderated somewhat from the very high levels of late 1962 but has continued to be greater than the current account deficit incurred in the period, thereby allowing some further increase in official holdings of gold and foreign exchange. The growth of these holdings ceased in June when there was a modest reduction. While the inflows in long term forms have exceeded the current account deficits to date in 1963, this was not the case in the years from 1957 to 1962 and over the period as a whole there has been a large net inflow in the form of net short term liabilities.

Non-merchandise transactions accounted for at least three-quarters of the reduction in the current deficit with the United States, since gains of similar magnitude in merchandise exports and imports lessened the contribution of trade to lowering the deficit. Smaller net payments on travel alone accounted for the entire decline of \$48 million in the "invisible" deficit with the United States. The reduction of \$21 million in net payments of interest and dividends together with a rise of \$1 million in the value of gold production available for export were counter-balanced by enhanced net payments on other items.

More than four-fifths of the \$127 million rise in the surplus on current transactions with the United Kingdom originated in merchandise trade, with exports advancing more than \$50 million and imports declining by a similar amount, or over 18 per cent. Commodities which contribute to the export rise to the United Kingdom were wheat, lumber, metals and minerals, including aluminum, nickel, and uranium, while diminished exports of automobiles was one of the main factors behind the drop in imports. The non-merchandise

Summary	1962				1963	
	I Q	II Q	III Q	IV Q	I Q	II Q
millions of dollars						
Capital movements in long term forms	+ 16	- 16	+ 248	+ 445	+ 384	+ 236
Capital movements in short term forms(1) ..	- 47	- 215	+ 472	+ 152	- 72	+ 68
Balance on goods and services	- 333	- 362	- 34	- 119	- 246	- 193
Total of above	- 364	- 593	+ 686	+ 478	+ 66	+ 111
Special international financial assistance	-	+ 707	-	- 377	-	-
Change in official holdings of gold and foreign exchange(2)	+ 364	- 114	- 686	- 101	- 66	- 111

(1) Excluding change in official holdings of gold and foreign exchange and special international financial assistance.

(2) Increase (-).

DIRECT INVESTMENT The net inflow of foreign capital for direct investment in foreign-controlled enterprises in Canada is estimated to have totalled \$55 million in the second quarter. This was some \$25 million lower than in the first quarter but a part of the decline is accounted for by the incidence of takeover and refinancing transactions.

The petroleum and natural gas industry attracted the largest share of the net inward movement in the quarter, despite some outflows in connection with takeover transactions. Mining followed in size but did not give rise to inflows on the scale of the first quarter due to the phasing out of some capital projects. There were relatively small net inflows to manufacturing enterprises in contrast to the first quarter when the total was inflated by the transfer of funds for takeovers.

About three quarters of the net inflow for direct investment in Canada in the first half of the year appears to have originated in the United States.

The net outflow of Canadian capital for direct investment abroad is estimated to have contracted from \$15 million in the first quarter to \$5 million in the second. Most of the change reflected the disposal of existing investment in the United States.

SECURITY TRANSACTIONS The net capital movement into Canada from transactions in bonds and stocks during the second quarter of 1963 amounted to \$212 million. This represented a substantial reduction from the very high level of \$329 million established in the first quarter of the year. While the second quarter inflow was large by historical standards it could be more than accounted for by some \$232 million net received from deliveries of bonds whose sale had been arranged earlier. Unusually large retirements of foreign-held Canadian securities contributed to this result.

New Issues of Canadian Bonds Sold to United States Residents

Period		Contracts	Deliveries
		millions of dollars	
1961	Year	355	437
1962	Year	936	668
1962	I Q	133	33
	II Q	78	194
	III Q	355	73
	IV Q	370	368
1963	I Q	531	401
	II Q	134	366

Net sales in the quarter of \$212 million included \$390 million proceeds of new Canadian issues of bonds and stocks, and \$12 million from net transactions in foreign securities. On the other hand there were net repurchases from non-residents of \$13 million of outstanding Canadian securities, and retirements of foreign-held Canadian securities led to a capital outflow of \$177 million.

More than two-thirds of the proceeds of new issues in the quarter arose from corporate borrowing with natural gas pipelines, other utilities, petroleum and finance companies all contributing in important measure. At mid-year the total of bonds sold to residents of the

United States but undelivered was \$189 million. Retirements of foreign-held Canadian securities included major amounts covering stocks of utility companies acquired by the Quebec Hydro-Electric Commission, as well as government and corporate bonds.

Net Sales (+) of Outstanding Canadian Stocks to Non-residents

Period	Total	United States	Other Countries
millions of dollars			
1962 I Q	- 14	15	- 29
II Q	- 44	- 3	- 41
III Q	- 26	- 6	- 20
IV Q	- 32	- 18	- 14
1963 I Q	- 57	- 30	- 27
II Q	- 44	- 29	- 15
April	- 19	- 13	- 6
May	- 19	- 12	- 7
June	- 6	- 4	- 2

The net outflow of \$13 million covering the repurchase from non-residents of outstanding Canadian securities concealed net sales of \$31 million of bonds and debentures, and net repurchases of \$44 million of stocks. The inflow from trading in bonds was higher, and the outflow from trading in stocks was smaller, than in the first quarter, and the net outflow was \$21 million smaller.

In June trade in all outstanding issues gave rise to a net capital inflow of \$3.7 million. For the first time since October of last year trade in outstanding Canadian issues contributed a small inflow. There were net sales of outstanding Canadian and foreign issues to United States residents aggregating \$4.6 million in June; this was larger than in recent months.

OTHER CAPITAL MOVEMENTS

During the second quarter Canada received repayments aggregating \$6 million on loans to other governments.

Change in Canadian Dollar Holdings of Foreigners

Period	Total	Treasury bills	Deposits etc.
millions of dollars			
1962 I Q	- 32	+ 18	- 50
II Q	+ 34	+ 50	- 16
III Q	- 54	- 3	- 51
IV Q	+ 24	- 61	+ 85
1963 I Q	- 21	+ 9	- 30
II Q	+ 24	- 19	+ 43

Canadian dollar holdings of foreigners rose by \$24 million in the second quarter following a slightly smaller decline in the first quarter. With a declining yield differential between treasury bills in Canada and in the United States, foreign holdings of Canadian treasury bills fell by \$19 million but the increase in deposits of non-residents was much larger than this leading to the net inflow of capital. Most of the net increase in these short term Canadian liabilities was on account of residents of the United States.

Composition of "Other Capital Movements"
(A minus sign indicates an outflow of capital from Canada)

Transactions with all countries	1962				1963	
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter
millions of dollars						
International financial agencies (1)						
Canadian dollar subscriptions	- 22	- 12	- 7	- 8	-	-
Short-term Canadian dollar holdings	33	54(2)	1	10	1	- 6
Long-term capital transactions n.i.e.	6	- 127	26	- 15	- 10	- 32
Bank balances and other short-term funds abroad (excluding official reserves)	49	- 245	257	17	- 59	- 58
Canadian commercial paper					(- 39	15
Canadian finance paper	28	15	35	52	(8	- 3
Canadian finance company obligations n.i.e.)					(3	7
All other transactions including changes in loans and accounts receivable and payable(3)	- 103	- 61	240	57	35	89
Total (Item D 17)	- 9	- 376	552	113	- 61	+ 12

(1) International Bank for Reconstruction and Development, International Monetary Fund, and International Development Association.

(2) Excludes counterpart of special financial assistance to Canada which is included in D 15.

(3) Includes also balancing item representing difference between direct measurements of current and capital accounts.

Among the movements shown separately in the supplementary statement of "other capital movements" were outflows of \$58 million to finance increased private and banking holdings of foreign exchange by residents; the corresponding movement in the first quarter was \$59 million. There were outflows of \$32 million for long term capital transactions not included elsewhere; a substantial part of this figure covered repayments of bank loans which were refinanced by the issue of securities, and extensions of export credits also contributed. There were net sales to non-residents of \$15 million of Canadian commercial paper in contrast to the substantial net repayment of \$39 million in the first quarter. On balance, changes in loans and accounts receivable and payable appear to have led to an inflow of \$89 million. Inflows of this order of magnitude are typical of the second quarter.

Official Holdings of
Gold and United States Dollars

United States Dollar in Canada

Official Holdings of Gold and United States Dollars				United States Dollar in Canada				
End of Period	Amount	Change in period		Period	High	Low	Close	Noon average
	millions of U.S.A. dollars						Canadian Cents	
1962 I Q	1,709	- 346		1961 IV Q	104.37	103.00	104.34	103.61
II Q	1,809(1)	+ 99						
III Q	2,445(1)	+ 636		1962 I Q	105.03	104.34	105.00	104.77
IV Q	2,539(2)	+ 95		II Q	109.00	104.87	108.19	107.42
1963 I Q	2,600(2)	+ 61		III Q	108.19	107.66	107.66	107.78
II Q	2,692(2)	+ 92		IV Q	107.81	107.53	107.72	107.63
April	2,671(2)	+ 71		1963 I Q	107.94	107.59	107.81	107.76
May	2,712(2)	+ 41		II Q	107.97	107.59	107.81	107.74
June	2,692(2)	- 20						

(1) Includes (+) 650 special international financial assistance.

(2) Includes (+) 300 special international financial assistance.

The Canadian Balance of International Indebtedness

The accompanying statement, showing the Canadian balance of international indebtedness, presents estimates of the various external assets and liabilities relating to the nation's international investment position.(1) The difference between assets and liabilities is described as the Canadian balance of international indebtedness. This balance arises from the amount by which foreign investments in Canada and other kinds of liabilities abroad exceed external assets owned by Canadians.

At the end of 1961 the balance of Canadian indebtedness to other countries amounted to \$17.9 billion, an increase of \$1.1 billion or 6 1/2% from the end of 1960. This is less of an increase than in preceding years. One factor contributing to the more moderate rise has been a higher value of Canada's external assets resulting from the reduced foreign exchange value of the Canadian dollar at the end of 1961. Reduced capital inflows and less income of non-residents reinvested in Canada also contributed to the smaller increase in 1961. This balance of indebtedness compares with one of \$5.0 billion one decade earlier, in 1951. The major contributor to the increased balance of indebtedness in both the year and the decade has been the expansion in foreign long-term investments in Canada, described in the note which follows.

(1) This statement is identified as "Table V" and represents advance publication of a part of the forthcoming report "The Canadian Balance of International Payments 1961 and 1962, and International Investment Position" (DBS Catalogue No. 67-201).

Investments of Foreign Long-Term Capital in Canada

Foreign long-term investments in Canada have been rising over a long period, being a prominent source of the financing of investment in Canada. The total value of foreign long-term investments which had been \$20,857 million in 1959, rose to \$22,214 million in 1960 and \$23,570 million by the end of 1961. These rates of increase of over 6% in each year are less than in some earlier periods of even greater rise. The largest parts of the rises in the value of this group of investments have come from inflows of capital to Canada which are reflected in the capital account of the balance of payments. In addition, other significant parts of the growth have originated in the retention of parts of the earnings on investments in Canada which accrue to non-residents.

Most of the above increases in this two-year period, as in preceding years, have been due to the expansion in direct investments in business enterprises in Canada which are controlled abroad. Increases in this group are distributed among primary and secondary industries with gains in manufacturing being almost as large as in the petroleum and mining industries. There were also sizable rises in the financial field, but in merchandising and in utilities other than pipelines, the gains were more moderate. There was a proportionately large gain in non-resident holdings of government and municipal bonds, mainly arising from sales of new issues outside of Canada. But in the case of other portfolio investments the increase was relatively small except in the case of miscellaneous investments which are mainly held through intermediaries.

Investments owned in the United States accounted for most of the increase in the total, rising to \$17,966 million at the end of 1961 from \$15,826 million in 1959. The direct investment group with a book value of \$11,284 million at the end of 1961 was again the main source of the rise, with other substantial gains in United States holdings of Canadian government and municipal bonds, other portfolio holdings and miscellaneous investments.

Investments owned in the United Kingdom rose from \$3,199 million in 1959 to \$3,385 million in 1961 due to a higher total of direct investments, a figure which, however, was partly influenced by changes in company classifications in 1960.

Investments owned in other countries showed a sharp gain from \$1,832 million in 1959 to \$2,219 million in 1961, a figure which is also affected by changes in company classifications in 1960. Besides concentrated gains in direct investments, there are also significant rises in holdings in these countries of government and municipal bonds and miscellaneous investments.

Foreign Capital Invested in Canada, 1959-61

Item	Owned by all non-residents			Owned in United States		
	1959	1960	1961	1959	1960	1961
millions of dollars						
Direct investments	11,906	12,872	13,737	9,912	10,549	11,284
Government and municipal bonds ...	3,112	3,269	3,438	2,764	2,903	3,049
Other portfolio investments	4,554	4,645	4,714	2,563	2,613	2,799
Miscellaneous investments	1,285	1,428	1,681	587	653	834
Total long-term investments	20,857	22,214	23,570	15,826	16,718	17,966
	Owned in United Kingdom			Owned in all other countries		
Direct investments	1,384	1,535	1,613	610	788	840
Government and municipal bonds ...	141	127	147	207	239	242
Other portfolio investments	1,474	1,486	1,402	517	546	513
Miscellaneous investments	200	211	223	498	564	624
Total long-term investments	3,199	3,359	3,385	1,832	2,137	2,219

TABLE V. The Canadian Balance of International Indebtedness, Selected Year Ends, 1926-61¹

Item	1926	1930	1933	1939	1945	1949	1951	1954	1955	1956	1957	1958	1959	1960	1961 ^P
billions of dollars															
Canadian liabilities:															
Direct investments VIII, X.....	1.8	2.4	2.4	2.3	2.7	3.6	4.5	6.0	7.7	8.9	10.1	10.9	11.9	12.9	13.7
Government and municipal bonds IX.....	1.4	1.7	1.7	1.7	1.7	1.8	2.1	2.1	1.9	2.1	2.3	2.6	3.1	3.3	3.4
Other portfolio investments VIII.....	2.5	3.2	3.0	2.6	2.4	2.3	2.5	3.1	3.1	3.5	3.9	4.1	4.2	4.4	4.4
Income accumulating investment funds.....	—	—	—	—	—	—	—	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Miscellaneous investments VIII.....	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.6	0.6	0.8	0.9	1.1	1.3	1.4	1.7
Foreign long-term investments in Canada VIII, IX.....	6.0	7.6	7.4	6.9	7.1	8.0	9.5	12.5	13.5	15.6	17.5	19.0	20.9	22.2	23.6
Equity of non-residents in Canadian assets abroad.....	..	..	..	0.2	0.2	0.3	0.4	0.6	0.7	0.8	0.8	0.9	1.0	1.1	1.2
Canadian dollars holdings of non-residents.....	..	..	..	0.3	0.3	0.4	0.4	0.3	0.4	0.4	0.4	0.5	0.5	0.6	0.6
Canadian short-term assets of international financial agencies.....	—	—	—	—	—	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.4	0.4	0.4
Gross liabilities².....	6.4	8.0	7.7	7.4	7.6	8.9	10.6	13.7	14.8	17.0	18.9	20.6	22.7	24.3	25.7
United States ³	3.5	4.9	4.7	4.5	5.4	6.4	7.9	10.3	11.1	12.6	14.2	15.5	17.0	18.0	19.3
United Kingdom ²	2.7	2.9	2.8	2.6	1.8	1.8	1.9	2.3	2.5	2.8	3.1	3.2	3.4	3.5	3.5
Other countries ^{2,3}	0.2	0.2	0.2	0.3	0.4	0.7	0.8	1.0	1.2	1.5	1.7	1.9	2.4	2.8	2.8
Short-term payables ⁴.....	..	..	..	..	0.4	0.4	0.7	0.4	0.5	0.7	1.0	1.2	1.6	1.7	2.1
Gross liabilities.....	6.4²	8.0²	7.7²	7.4²	8.0	9.3	11.3	14.1	15.3	17.7	19.9	21.8	24.3	26.1	27.8
Canadian assets:															
Direct investments VII.....	0.4	0.4	0.4	0.7	0.7	0.9	1.2	1.6	1.7	1.9	2.1	2.1	2.3	2.5	2.6
Portfolio investments VII.....	0.5	0.8	0.9	0.7	0.6	0.6	0.6	0.9	1.0	1.0	1.1	1.1	1.2	1.3	1.5
Government of Canada loans and advances VII.....	—	—	—	—	0.7	2.0	1.9	1.7	1.6	1.6	1.5	1.5	1.5	1.4	1.4
Government of Canada subscriptions to international financial agencies.....	—	—	—	—	—	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.6	0.6	0.6
Canadian long-term investments abroad.....	0.9	1.3	1.3	1.4	2.0	4.0	4.1	4.6	4.7	4.8	5.0	5.1	5.5	5.8	6.1
Government of Canada holdings of gold and foreign exchange VI.....	..	..	..	0.5	1.7	1.2	1.8	1.9	1.9	1.9	1.8	1.9	1.8	1.8	2.2
Bank balances and other short-term funds abroad.....	\$	\$	\$	—	0.1	0.1	0.1	0.4	0.3	0.6	0.9	1.0	1.0	1.2	1.1
Gross assets².....	1.3	1.5	1.4	1.9	3.8	5.2	6.0	6.9	7.0	7.3	7.7	8.0	8.4	8.8	9.4
Government of Canada holdings of gold and foreign exchange.....	—	—	—	0.5	1.7	1.2	1.8	1.9	1.9	1.9	1.8	1.9	1.8	1.8	2.2
United States ^{3,6}	0.7	0.9	0.8	0.9	0.9	1.1	1.4	2.1	2.2	2.6	3.0	3.1	3.3	3.7	3.8
United Kingdom ^{2,6}	0.1	0.1	—	0.1	0.7	1.6	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.4	1.5
Other countries ^{2,3}	0.5	0.5	0.6	0.4	0.5	1.3	1.3	1.4	1.4	1.5	1.5	1.6	1.9	1.9	1.9
Short-term receivables ⁴.....	..	..	..	..	0.1	0.2	0.2	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.5
Gross assets.....	1.3²	1.5²	1.4²	1.9²	4.0	5.5	6.3	7.2	7.4	7.7	8.1	8.4	8.8	9.3	9.8
Canadian net international indebtedness:															
Net liabilities.....	5.1²	6.5²	6.3²	5.5²	4.0	3.8	5.0	6.8	7.8	10.0	11.8	13.4	15.4	16.8	17.9
Government of Canada holdings of gold and foreign exchange.....	—	—	—	-0.5	-1.7	-1.2	-1.8	-1.9	-1.9	-1.9	-1.8	-1.9	-1.8	-1.8	-2.2
United States ^{3,6}	2.8	4.0	3.9	3.6	4.6	5.3	6.5	8.2	8.8	10.0	11.1	12.4	13.6	14.4	15.5
United Kingdom ^{2,6}	2.6	2.8	2.8	2.5	1.1	0.2	0.4	0.9	1.1	1.4	1.7	1.9	2.0	2.1	2.1
Other countries ^{2,3}	-0.3	-0.3	-0.4	-0.1	-0.1	-0.6	-0.5	-0.4	-0.2	—	0.1	0.3	0.5	0.9	0.9
Short-term indebtedness ⁴.....	..	..	..	..	0.3	0.2	0.5	0.1	0.2	0.3	0.7	0.7	1.1	1.3	1.6

¹ For missing years after 1945 see Tables VI and VII in "Canada's Short-Term External Assets and Liabilities 1945-1957" (DBS catalogue No. 67-504).

² Excludes short-term commercial indebtedness.

³ Includes international financial agencies.

⁴ Country distribution not available.

⁵ Net external assets of the Chartered Banks of Canada amounted to \$370 million in 1926, \$180 million in 1930, and \$91 million in 1933.

⁶ Excludes Government of Canada holdings of gold and foreign exchange.

Note: As figures are rounded, totals do not necessarily equal the sum of their component parts. Roman numerals refer to tables with further detail.

General note applicable to all statistics of foreign investments in Canada

Common and preference stocks are included at book (equity) values as shown in the balance sheets of the issuing companies, bonds and debentures are included at par, liabilities in foreign currencies being converted into Canadian dollars at the original par of exchange.

Investments in Canadian companies have been classified according to principal activities in Canada.

Investments in Canada shown as owned by residents of the United States and the United Kingdom include some investments held for residents of other countries.

For more detailed explanations see "Canada's International Investment Position, 1926-1954".

TABLE VI. Canada's Official Holdings of Gold and United States Dollars,¹ 1951-62

At end of	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
millions of U.S. dollars												
March.....	1,653.4	1,787.2	1,845.3	1,827.2	1,871.5	1,871.4	1,923.6	1,867.7	1,888.3	1,856.1	1,934.9	1,709.4
June.....	1,683.0	1,827.7	1,750.1	1,863.3	1,930.4	1,899.5	1,941.8	1,921.4	1,934.2	1,773.9	1,985.2	1,808.7 ²
September.....	1,610.1	1,855.6	1,787.3	1,898.6	1,936.7	1,903.5	1,889.9	1,888.2	1,938.3	1,813.0	1,924.3	2,444.6 ³
December.....	1,778.6	1,860.2	1,818.5	1,942.6	1,900.8	1,936.2	1,828.3	1,939.1	1,869.2	1,829.2	2,055.8	2,539.4 ³

¹ Gold, United States dollars and short-term securities of the United States Government held by the Exchange Fund Account and other Government accounts, and net holdings of the Bank of Canada.

² Includes \$650 million special international financial assistance.

³ Includes \$300 million special international financial assistance.

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1962 are preliminary and 1963

		1961			1962
		II	III	IV	I
A	Current Receipts				
1	Merchandise exports (adjusted)	1,447	1,557	1,619	1,395
3	Gold production available for export	42	41	38	43
4	Travel expenditures	103	255	85	46
5	Interest and dividends	59	40	74	33
6	Freight and shipping	120	135	129	104
7	Inheritances and immigrants' funds	28	31	25	20
11	All other current receipts	103	99	98	107
12	Total Current Receipts	1,902	2,158	2,068	1,748
B	Current Payments				
1	Merchandise imports (adjusted)	1,478	1,419	1,559	1,402
4	Travel expenditures	168	220	125	130
5	Interest and dividends	174	170	222	179
6	Freight and shipping	142	151	159	125
7	Inheritances and emigrants' funds	43	49	47	34
9	Official contributions	8	15	20	7
11	All other current payments	200	196	208	204
12	Total Current Payments	2,213	2,220	2,340	2,081
	Balance on Merchandise Trade	- 31	+138	+ 60	- 7
	Balance on Other Transactions, excluding B 9	-272	-185	-312	-319
	Official Contributions	- 8	- 15	- 20	- 7
C	Current Account Balance	-311	- 62	-272	-333
D	Capital Account				
	Direct Investment				
1	Direct investment in Canada	+158	+117	+100	+110
2	Direct investment abroad	- 21	- 12	- 18	- 30
	Canadian Securities				
3a	Trade in outstanding bonds and debentures	+ 34	- 11	+ 9	- 3
3b	Trade in outstanding common and preference stocks	+ 32	-	- 5	- 14
4	New issues	+190	+125	+117	+ 47
5	Retirements	- 92	- 29	-103	- 74
	Foreign Securities				
6	Trade in outstanding issues	-	+ 2	- 10	- 32
7	New issues	- 18	- 7	- 7	- 2
8	Retirements	+ 2	+ 3	+ 2	+ 5
	Loans by Government of Canada				
9	Drawings	-	-	-	-
10,11	Repayments	+ 7	-	+ 27	+ 3
13	Subscriptions in gold and U.S. dollars to international financial agencies	-	-	-	-
14	Change in Canadian dollar holdings of foreigners	- 72	- 1	+ 44	- 32
15	Special international financial assistance	-	-	-	-
16	Change in official holdings of gold and foreign exchange (increase, minus)	- 51	+ 62	-135	+364
17	Other capital movements	+142	-187	+251	- 9
E	Net Capital Movement	+311	+ 62	+272	+333

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports on B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance transactions, and business services.

BALANCE OF INTERNATIONAL PAYMENTS

data for 1961 are subject to revision.

1962			1963		Annual Totals		Four Quarters ended		
II	III	IV	I	II	1960	1961	1962	June 30, 1963	
(millions of dollars)									
1,620	1,628	1,721	1,476	1,765	5,392	5,889	6,364	6,590	A
42	39	41	45	41	162	162	165	166	1
126	294	94	50	132	420	482	560	570	3
52	44	82	43	54	173	209	211	223	4
128	133	133	110	136	442	486	498	512	5
31	42	31	27	36	102	103	124	136	6
104	108	107	109	112	419	403	426	436	7
									11
2,103	2,288	2,209	1,860	2,276	7,110	7,734	8,348	8,633	12
1,665	1,559	1,583	1,413	1,693	5,540	5,716	6,209	6,248	B
178	200	102	117	158	627	642	610	577	1
205	163	234	194	191	653	770	781	782	4
153	158	152	124	160	533	568	588	594	5
40	44	45	40	45	181	174	163	174	6
12	5	8	15	10	61	56	32	38	7
212	193	204	203	212	758	790	813	812	9
									11
2,465	2,322	2,328	2,106	2,469	8,353	8,716	9,196	9,225	12
- 45	+ 69	+138	+ 63	+ 72	-148	+173	+155	+342	
-305	- 98	-249	-294	-255	-1,034	-1,099	-971	-896	
- 12	- 5	- 8	- 15	- 10	- 61	- 56	- 32	- 38	
-362	- 34	-119	-246	-193	-1,243	-982	-848	-592	C
+ 80	+145	+190	+ 80	+ 55	+650	+515	+525	+470	D
- 30	- 15	- 25	- 15	- 5	- 50	- 80	-100	- 60	1
									2
+ 4	+ 39	+ 24	+ 23	+ 31	+ 3	+ 63	+ 64	+117	
- 44	- 26	- 32	- 57	- 44	+ 51	+ 40	-116	-159	3a
+201	+ 81	+381	+412	+390	+447	+533	+710	+1,264	3b
- 71	- 54	-123	- 53	-177	-265	-297	-322	-407	4
									5
- 37	- 9	- 5	+ 5	+ 10	- 19	- 5	- 83	+ 1	6
- 4	- 5	- 5	- 6	- 3	- 18	- 37	- 16	- 19	7
+ 5	+ 5	+ 5	+ 5	+ 5	+ 18	+ 9	+ 20	+ 20	8
-	- 7	-	-	-	-	-	- 7	- 7	9
+ 7	+ 68	+ 51	-	+ 6	+ 32	+ 37	+129	+125	10,11
-	-	- 1	-	-	- 3	-	- 1	- 1	13
+ 34	- 54	+ 24	- 21	+ 24	+120	- 34	- 28	- 27	14
+707	-	-377	-	-	-	-	+330	-377	15
-114	-686	-101	- 66	-111	+ 39	-229	-537	-964	16
-376	+552	+113	- 61	+ 12	+238	+467	+280	+616	17
+362	+ 34	+119	+246	+193	+1,243	+982	+848	+592	E

NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.

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QUARTERLY ESTIMATES OF THE CANADIAN
BALANCE OF INTERNATIONAL PAYMENTS
THIRD QUARTER 1963



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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

THIRD QUARTER 1963

Rising merchandise exports improved the current account in Canada's balance of payments in the third quarter. Compared with the corresponding quarter of 1962, this rise was well in excess of a rise in imports and some deterioration in the balance from non-merchandise transactions. The result was a small surplus of \$8 million from net sales to non-residents of goods and services in the third quarter of 1963. While the current account is seasonally most favourable in this quarter of the year, mainly because of travel, the 1963 surplus compares with a deficit of \$34 million in 1962, and one must go back to 1954 to find another surplus. However, allowing for seasonal variations the balance on current account in the third quarter implied an enlarged deficit over earlier quarters of 1963.

In this period when the current account did not give rise to a need for external financing, the capital inflow in long-term forms contracted sharply. A number of special factors mentioned later influenced the size and direction of these flows. There were outflows of capital in short-term forms and Canada's official holdings of gold and foreign exchange were reduced moderately.

Summary Statement

	1962				1963		
	I Q	II Q	III Q	IV Q	I Q	II Q	III Q
	millions of dollars						
Merchandise trade balance	- 7	- 45	+ 69	+ 138	+ 69	+ 76	+ 135
Deficit on non-merchandise transactions	- 326	- 317	- 103	- 257	- 313	- 263	- 127
Current account balance	- 333	- 362	- 34	- 119	- 244	- 187	+ 8
Capital movements:							
Long term forms	+ 24	- 23	+ 246	+ 441	+ 376	+ 203	+ 28
Short term forms(1)	- 65	- 249	+ 474	+ 156	- 66	+ 95	- 95
Change in official holdings of gold, foreign exchange, and net International Monetary Fund position, less special international financial assistance	- 374	- 634	+ 686	+ 478	+ 66	+ 111	- 59

(1) Excluding items in final line.

Export balance on merchandise trade

The shift in the current account balance from a moderate deficit in the third quarter of 1962 to a small surplus in 1963 was wholly dependent on merchandise trade. Following a better than 10 per cent gain in exports from \$1,628 million to \$1,801 million and a smaller increase of nearly 7 per cent in imports from \$1,559 million to \$1,666 million, Canada's commodity surplus with the rest of the world widened from \$69 million to \$135 million, which was about the level of the surplus in the same quarter of 1961. Both export and import totals have been adjusted for balance of payments use.

Exports of wheat and lumber were respectively more than \$40 million and \$30 million larger in the September quarter of 1963, and shipments of iron ore, newsprint and pulp were each over \$15 million higher. Exports of nickel were about \$20 million lower and those of uranium more moderately so.

Between the first nine months of 1962 and 1963, the expansion in the merchandise surplus again accounted preponderantly for the improvement in the current balance on goods and services. The expansion in the export balance from \$17 million to \$280 million resulted from a 9 per cent growth in merchandise exports from \$4,643 million to \$5,059 million and a rise of more than 3 per cent in imports from \$4,626 million to \$4,779 million. In the three quarters of 1963, exports of wheat and lumber each increased over \$50 million, and of iron ore, aluminum, wood pulp, agricultural machinery, and aircraft and measuring instruments each more than \$20 million. Smaller gains were recorded in shipments of semi-processed steel, fertilizers, railway locomotives, motor vehicles and parts, non-agricultural machinery and petroleum and natural gas. The value of aircraft exported fell more than \$30 million and those of barley and uranium less drastically.

On the basis of import details for the first 7 months of 1963, imports of automobile parts expanded nearly \$60 million, and sizable increases of about \$20 million each were seen in the cases of raw sugar, farm equipment, tractors and crude petroleum. Imports of fruit and vegetables and meat rose more moderately. Automobile imports were alone \$75 million lower, and reductions were less pronounced for cotton and its products, non-farm machinery and electrical apparatus.

Following a fractional rise in average export prices (with the change having taken place in the first half of the year) and an increase of about 3 per cent in import prices, Canada's terms of trade became less favourable in the 9 months of 1963.

Deficit on services and non-merchandise items

The deficit on non-merchandise transactions rose to \$127 million from \$103 million in the September quarter of 1962, but was smaller than in the same period in the four preceding years. This widening in the imbalance on service transactions was attributable mainly to interest and dividends, freight and shipping and other miscellaneous transactions. In the last group were net payments on government account, including official contributions, and business services. While receipts of interest and dividends remained just about unchanged, payments rose \$15 million to \$177 million. Substantial purchases by non-resident investors in early 1963 of bonds of provincial governments and of the Government of Canada constituted a prominent factor in the rise of nearly \$10 million in interest payments to \$70 million. Returns on portfolio investments and net profits of unincorporated branches in Canada of non-resident firms contributed about equally to an increase in dividend payments from \$101 million to \$107 million. At a time when earnings appear to have been rising, transfers by subsidiaries, which are quite variable, were at the lowest level for several years. In step with the growing volume of trade, both receipts and payments on freight and shipping services rose. But as the expansion in payments was about twice as large as the receipts, the deficit widened from \$25 million to \$33 million. Inland freight in the United States, particularly on importation of coal, was an important element in the rise in freight disbursements.

Interest and Dividends: Payments

Period		Total	Interest	Dividends
millions of dollars				
1961		770	259	511
1962		781	285	496
1961	III Q	170	58	112
	IV Q	222	72	150
1962	I Q	179	67	112
	II Q	205	76	129
	III Q	163	62	101
	IV Q	234	80	154
1963	I Q	194	70	124
	II Q	191	89	102
	III Q	177	70	107

United States, particularly on importation of coal, was an important element in the rise in freight disbursements.

At \$13 million, official contributions were \$8 million higher than in the third quarter of 1962, and other government expenditures were higher, including contributions to infrastructure and military costs of the NATO. A percentage increase of almost 9 per cent in travel receipts was much larger than in payments. Moreover with receipts being about 50 per cent heavier than payments in the September quarter of 1962, the net effect was to widen the surplus from \$94 million to \$113 million. This was the highest surplus for the quarter in the post-war period, except in 1948, when Canadian travel abroad was restricted.

Travel Account

	First nine months			
	1960	1961	1962	1963
	millions of dollars			
United States:				
Receipts ...	311	358	425	459
Payments ...	373	372	353	323
Balance ...	- 62	- 14	+ 72	+ 136
Overseas:				
Receipts ...	37	39	41	43
Payments ...	127	145	155	159
Balance ...	- 90	- 106	- 114	- 116
All countries:				
Balance ...	- 152	- 120	- 42	+ 20

In a comparison of the first nine months of 1962 and 1963, the deficit on "invisibles" narrowed nearly 6 per cent from \$746 million to \$703 million. Receipts on these transactions rose almost 7 per cent from \$1,496 million to \$1,599 million, while the increase in payments from \$2,242 million to \$2,302 million was not as large. An improvement of \$62 million from a deficit of \$42 million to a surplus of \$20 million on travel account alone more than accounted for the reduction in net payments of all non-merchandise transactions. As the deficit with overseas countries was almost unchanged, the \$62 million improvement in the travel account occurred entirely in transactions with the United States. This favourable trend covering the first three quarters of the year has prevailed for some 5 years. Receipts from American visitors were up \$34 million to \$459 million, while expenditures by Canadians in the United States fell \$30 million to \$323 million.

Major Components of the Balance on Non-Merchandise Transactions with All Countries

	First nine months		
	1962	1963	Change
	millions of dollars		
Gold production available for export	+ 124	+ 124	-
Travel expenditures	- 42	+ 20	+ 62
Interest and dividends ...	- 418	- 422	- 4
Freight and shipping	- 71	- 69	+ 2
Inheritances and migrants' funds	- 25	- 21	+ 4
All other current transactions	- 314	- 335	- 21
Balance on non-merchandise transactions	- 746	- 703	+ 43

Apart from travel, changes in the balances of other items for the 9-month periods were generally small, except for an increase in official contributions amounting to \$14 million. Receipts and payments on these items were both larger in the current period, except those for miscellaneous income. Net payments of \$422 million on interest and dividends accounted for roughly 60 per cent of the deficit on "invisibles" in the nine months of 1963, as compared with 56 per cent represented by \$418 million in the preceding year. Miscellaneous current transactions accounted for 39 per cent in 1962 and 42 per cent in 1963. There were compensating shifts in the relative shares of the deficit for the other items.

Transactions by areas

The improvement in the balance with all countries in the third quarter originated mainly from transactions with the United Kingdom, and to a lesser degree with other overseas countries. With the United States the current deficit was only slightly higher than in the same quarter of last year.

Total receipts and payments with the United States both rose more than 6 per cent. The import balance with this country was reduced \$10 million to \$60 million, following a larger gain in exports from \$961 million to \$1,030 million, than in imports from \$1,031 million to \$1,090 million. The expansion in non-merchandise payments from \$514 million to \$557 million was nearly half again as large as the rise in receipts from \$518 million to \$548 million. Over three-quarters of the advance in exports involved shipments of crude and fabricated materials, including iron ore, natural gas and forest products, but uranium was again lower as was also nickel. Except for an increase in the travel account surplus, the deficits on other items rose, due to larger payments in the third quarter of 1963.

Quarterly Current Account Balances

	I Q	II Q	III Q	IV Q
millions of dollars				
<u>United States:</u>				
1960	- 343	- 449	- 165	- 404
1961	- 433	- 435	- 151	- 367
1962	- 343	- 425	- 66	- 282
1963	- 350	- 334	- 69	
<u>United Kingdom:</u>				
1960	+ 28	+ 12	+ 48	+ 78
1961	+ 39	+ 27	+ 42	+ 79
1962	+ 6	+ 48	+ 49	+ 110
1963	+ 74	+ 113	+ 89	
<u>Other countries:</u>				
1960	- 11	- 40	- 10	+ 13
1961	+ 57	+ 97	+ 47	+ 16
1962	+ 4	+ 15	- 17	+ 53
1963	+ 32	+ 34	- 12	

The surplus on current account with the United Kingdom rose about 80 per cent from \$49 million to \$89 million as an increment of over 10 per cent took place in total receipts from \$299 million to \$330 million, while total payments declined slightly from \$250 million to \$241 million. More than four-fifths of the gain in the surplus occurred in merchandise trade, with exports advancing 10 per cent to \$270 million and imports contracting 7 per cent to \$137 million. Commodities which were prominent in the export gain included wheat and industrial materials, like uranium and some other metals and lumber.

In transactions with other overseas countries, a small deficit in the third quarter of 1962 was trimmed moderately as a result of a larger increase of \$21 million in the merchandise surplus than of \$16 million in the non-merchandise deficit. Merchandise exports expanded 19 per cent to \$501

million and imports 15 per cent to \$439 million. The deficit on non-merchandise transactions widened with each of the component areas, while the balance on merchandise trade worsened with the Rest of the Sterling Area, but improved with the other OECD group and also with the remaining countries.

In a comparison of the 9-month periods in 1962 and 1963, 75 per cent of the betterment in Canada's current account balance with the rest of the world occurred in transactions with overseas countries (with nearly 60 per cent being attributable to the United Kingdom) and 25 per cent with the United States. With these two countries, improvements were recorded in both trade and non-merchandise transactions but the amelioration in the trade balance was over 1 1/2 times as large as in the "invisibles" in the case of the United States and more than four times as large for the United Kingdom. With respect to other overseas countries, a substantial advance in merchandise surplus was moderated by a smaller rise in the non-merchandise deficit.

The deficit with United States narrowed 9 per cent to \$753 million in the first three quarters of 1963, following a gain of nearly 6 per cent in receipts to \$4,106 million and a rise of 3 per cent in payments on goods and services to \$4,859 million. Contributing to the 6 per cent increase in exports to the United States from \$2,764 million to \$2,928 million were petroleum, natural gas, iron ore, lumber, various metals and other processed materials, and manufactured goods such as agricultural implements and automobile parts. Also included in exports are receipts of progress payments under the defence production sharing programme for manufacture in Canada of military aircraft destined for overseas NATO countries under United States military assistance. On the basis of incomplete detailed trade returns for the period, tractors and some other machinery and automobile parts appeared prominently among commodities which produced a rise of nearly 4 per cent in imports from \$3,161 million to \$3,278 million. Imports of petroleum products, and some other industrial materials, including chemicals, and many types of consumer goods were also larger in the nine months of 1963. With the exclusion of military aircraft obtained under special arrangement from the United States in 1962 for use under NORAD plans, which do not directly affect Canada's balance of payments, the sharp decline in the value of aircraft imports is reduced considerably.

On travel account an increase of 8 per cent in receipts combined with a decline of more than 8 per cent in payments to yield a rise of \$64 million to \$136 million in the surplus on this account. This gain was much greater than the reduction in the deficit on all non-merchandise transactions with the United States. Net payments on other items increased, with the exception of interest and dividends and the value of gold production available for export, the latter having remained unchanged.

Total receipts on goods and services from the United Kingdom rose 12 per cent from \$827 million to \$926 million, while total payments declined 10 per cent to \$650 million. The current account surplus accordingly expanded more than 2 1/2 times from \$103 million to \$276 million. An increment of 11 per cent in exports to \$751 million combined with a 15 per cent fall in imports caused the surplus on merchandise trade to expand about 60 per cent from \$231 million to \$372 million.

Summary of Current Transactions with the United States, United Kingdom and Other Countries
1962 and 1963, and Changes Between the Periods

	1962	1963	Change	1962	1963	Change
	millions of dollars					
	All countries			United States		
<u>Third quarter</u>						
Merchandise exports (adjusted)	1,628	1,801	+ 173	961	1,030	+ 69
Merchandise imports (adjusted)	1,559	1,666	+ 107	1,031	1,090	+ 59
Balance on merchandise trade	+ 69	+ 135	+ 66	- 70	- 60	+ 10
Other current receipts	660	702	+ 42	518	548	+ 30
Other current payments	763	829	+ 66	514	557	+ 43
Balance on non-merchandise transactions	- 103	- 127	- 24	+ 4	- 9	- 13
Total receipts	2,288	2,503	+ 215	1,479	1,578	+ 99
Total payments	2,322	2,495	+ 173	1,545	1,647	+ 102
Current account balance	- 34	+ 8	+ 42	- 66	- 69	- 3
<u>January to September</u>						
Merchandise exports (adjusted)	4,643	5,059	+ 416	2,764	2,928	+ 164
Merchandise imports (adjusted)	4,626	4,779	+ 153	3,161	3,278	+ 117
Balance on merchandise trade	+ 17	+ 280	+ 263	- 397	- 350	+ 47
Other current receipts	1,496	1,599	+ 103	1,114	1,178	+ 64
Other current payments	2,242	2,302	+ 60	1,551	1,581	+ 30
Balance on non-merchandise transactions	- 746	- 703	+ 43	- 437	- 403	+ 34
Total receipts	6,139	6,658	+ 519	3,878	4,106	+ 228
Total payments	6,868	7,081	+ 213	4,712	4,859	+ 147
Current account balance	- 729	- 423	+ 306	- 834	- 753	+ 81
	United Kingdom			Other Countries		
<u>Third quarter</u>						
Merchandise exports (adjusted)	245	270	+ 25	422	501	+ 79
Merchandise imports (adjusted)	147	137	- 10	381	439	+ 58
Balance on merchandise trade	+ 98	+ 133	+ 35	+ 41	+ 62	+ 21
Other current receipts	54	60	+ 6	88	94	+ 6
Other current payments	103	104	+ 1	146	168	+ 22
Balance on non-merchandise transactions	- 49	- 44	+ 5	- 58	- 74	- 16
Total receipts	299	330	+ 31	510	595	+ 85
Total payments	250	241	- 9	527	607	+ 80
Current account balance	+ 49	+ 89	+ 40	- 17	- 12	+ 5
<u>January to September</u>						
Merchandise exports (adjusted)	675	751	+ 76	1,204	1,380	+ 176
Merchandise imports (adjusted)	444	379	- 65	1,021	1,122	+ 101
Balance on merchandise trade	+ 231	+ 372	+ 141	+ 183	+ 258	+ 75
Other current receipts	152	175	+ 23	230	246	+ 16
Other current payments	280	271	- 9	411	450	+ 39
Balance on non-merchandise transactions	- 128	- 96	+ 32	- 181	- 204	- 23
Total receipts	827	926	+ 99	1,434	1,626	+ 192
Total payments	724	650	- 74	1,432	1,572	+ 140
Current account balance	+ 103	+ 276	+ 173	+ 2	+ 54	+ 52

Export shipments of wheat and uranium were notably higher and of nickel moderately so. Among imports, purchases of automobiles and aircraft were lower. The 25 per cent contraction in the deficit on non-merchandise transactions with the United Kingdom was mainly attributable to freight and shipping, migrants' funds and inheritances and government expenditures. In each case there were larger receipts and smaller payments in the nine months of 1963.

The surplus on current transactions with other countries rose from \$2 million to \$54 million. This originated in the larger surplus on merchandise trade as a result of a higher gain in exports than in imports, and was offset in part by a more moderate expansion in the deficit on service transactions. Within this group, the Rest of the Sterling Area and the other OECD countries together accounted for one-half of the improvement, while the remaining countries contributed the other half. In each case, as for the group as a whole, merchandise trade, with larger increases in exports than in imports, was responsible for most of the betterment in the current balances. A return to large scale shipments of wheat to Eastern Europe contributed markedly to the increase as did larger exports of industrial materials to Japan.

Capital Movements

The inflow of capital into Canada in long-term forms continued to abate during the third quarter, mainly because of a sharp contraction in the inflow from security transactions. At an estimated \$28 million it was smaller than for any but three earlier quarters since the institution of quarterly estimates from the beginning of 1950; two of these exceptional quarters occurred in 1962. While the change from \$441 million in the final quarter of 1962 is very large, it may be noted that the capital inflow in long-term forms in that quarter was probably exceeded only twice earlier.

Reduced capital inflows in long-term forms coincided with a current account balance strengthened both by seasonal and other factors, and there were receipts by Canada from these two groups of transactions taken together.

Capital movements in short-term forms other than official monetary transactions were outwards, with a sharp increase of more than one hundred million dollars in private and banking holdings of exchange as the largest factor. Canada's official holdings of gold and foreign exchange, and Canada's net International Monetary Fund position, were together reduced by \$59 million in the quarter.

The emerging economic pattern is a constant but ever changing factor in the shape and character of capital movements. From time to time special institutional changes, or expectations of them, or special events occur which may also cause variations in the flows. Among the special background factors to capital movements in the third quarter were the Canadian budgetary measures introduced late in the second quarter designed to influence the balance of payments, the special message on the balance of payments presented in mid-July by the President of the United States, and the announcement in mid-September of major contracts for the sale of Canadian wheat.

Summary	1962				1963		
	I Q	II Q	III Q	IV Q	I Q	II Q	III Q
	millions of dollars						
Capital movements in long term forms	+ 24	- 23	+ 246	+ 441	+ 376	+ 203	+ 28
Capital movements in short term forms(1)	- 65	- 249	+ 474	+ 156	- 66	+ 95	- 95
Balance on goods and services	- 333	- 362	- 34	- 119	- 244	- 187	+ 8
Change in official holdings of gold, foreign exchange, and net International Monetary Fund position, less special international financial assistance	- 374	- 634	+ 686	+ 478	+ 66	+ 111	- 59

(1) Excluding items in final line.

DIRECT INVESTMENT The net flow of foreign capital for direct investment in foreign-controlled enterprises in Canada continued to be inwards, although at a rate well below the levels prevailing for more than a decade past. The net movement in the third quarter, tentatively estimated at \$45 million, appears to have been slightly higher than in the second quarter when it was held down by takeover and similar transactions.

The petroleum and natural gas industry attracted the largest share of net direct investment flows with mining also an important contributor.

It may be timely to note again that the net movement of direct investment capital reflects very much larger flows in both directions. There have been sizable outward movements in recent years by companies whose operations are well established and successful. Such movements frequently do not reflect any reduction in the value of foreign investment in Canada but may merely represent the transfer of cash resources generated from current operations. To the extent that this is the case such transfers may take the place of dividends which would have appeared as a payment on current account.

The net outflow of Canadian capital for direct investment abroad is estimated to have been \$15 million in the third quarter, compared with a revised figure of \$25 million for the second quarter.

SECURITY TRANSACTIONS The net capital movement into Canada from transactions in bonds and stocks during the third quarter of 1963 amounted to \$27 million. This was the lowest capital inflow from these transactions over the past six quarters, although had it not been for some special refinancing transactions carried out in the second quarter of 1962 there would have been an outflow of \$78 million from these transactions in the special conditions then prevailing.

Receipts during the quarter from transactions in Canadian securities included \$98 million proceeds of new issues but there were retirements of \$33 million of foreign-held Canadian securities and net repurchases from non-residents of \$7 million of outstanding Canadian bonds and debentures and \$27 million of outstanding Canadian stocks.

New Issues of Canadian Bonds Sold to
United States Residents

Period		Contracts	Deliveries
		millions of dollars	
1961	Year	355	437
1962	Year	954	671
1962	III Q	363	75
	IV Q	370	370
1963	I Q	529	399
	II Q	134	367
	III Q	11	94

Transactions in Foreign Securities 1963
(Net sales +)

	I Q	II Q	III Q
	millions of dollars		
Outstanding issues	+ 5	+ 10	- 4
New issues	- 6	- 3	- 5
Retirements	+ 5	+ 5	+ 5
Total	+ 4	+ 12	- 4

The substantial decline in the net capital inflow compared with recent quarters can be ascribed mainly to a sharp reduction in the proceeds of new issues sold to non-residents which were at their lowest level since the third quarter of last year. The transactions in the third quarter of 1963 included receipts of \$83 million from deliveries of bonds whose sale had been arranged earlier. The total receipts from new issues amounting to \$98 million compared with foreign capital inflows from this source of \$391 million, \$410 million and \$386 million in the immediately preceding quarters. Retirements of foreign-held Canadian securities, which were abnormally large in the second quarter, were in the third quarter at their lowest level in the last two years. Trading in outstanding Canadian securities involved outflows of \$20 million of capital to the United States and of \$14 million to the United Kingdom and other overseas countries.

All transactions in foreign securities led to a capital outflow of \$4 million in the third quarter following an inflow of \$12 million in the second. The principal factor in the change was a shift in the direction of trade in outstanding United States issues. In the second quarter Canadians sold on balance \$7 million of outstanding United States stocks and \$6 million of bonds. In the third quarter their net sales of outstanding United States bonds were reduced to \$1 million and there were net purchasers of \$6 million of United States stocks.

OTHER CAPITAL MOVEMENTS Among other capital movements in the third quarter were direct intergovernmental loans by the Government of Canada amounting to about \$8 million. No repayments fell due in the period. Canadian dollar holdings of foreigners rose by \$6 million, a decline of \$13 million in deposit and similar liabilities having been more than offset by an increase of \$19 million in foreign-owned holdings of Canadian treasury bills.

Capital movements in long-term forms not identified elsewhere in the statements gave rise to a capital outflow of \$21 million in the third quarter. A wide and diverse mix of movements are covered including transfers by insurance companies, transactions under the uranium stretch-out agreements, medium and long-term bank loans, wheat and other export financing arrangements, etc.

Private and banking holdings of foreign exchange by Canadian residents rose during the quarter by \$107 million. This capital outflow followed similar movements of \$59 million and \$58 million in the first and second quarters respectively.

Transactions in Canadian money market paper, apart from Canadian treasury bills to which reference has already been made, were in near balance with net repayments of \$11 million on account of Canadian commercial paper about offset by net sales of the same amount of Canadian finance paper. Borrowings by Canadian finance companies not shown elsewhere brought in \$11 million.

All other capital movements, mainly taking short-term forms, were in near balance. There were both large repayments to Canada on credits extended earlier, and large bank borrowings by Canadians in foreign currencies, but these capital inflows appear to have been largely offset by other outflows.

Composition of "Other Capital Movements"
(A minus sign indicates an outflow of capital from Canada)

Transactions with all countries	1962				1963		
	I Q	II Q	III Q	IV Q	I Q	II Q	III Q
millions of dollars							
Subscriptions to international investment agencies(1)	-	-	-	7	-	-	-
Long-term capital transactions n.i.e.	6	- 127	26	- 15	- 1	- 33	- 21
Bank balances and other short-term funds abroad (excluding official reserves)	49	- 245	257	17	- 59	- 58	- 107
Canadian commercial paper					(- 39	15	- 11
Canadian finance paper	28	15	35	52	(- 8	- 3	11
Canadian finance company obligations n.i.e.					(- 13	24	11
All other transactions including changes in loans and accounts receivable and payable(2)	- 111	- 54	235	54	57	101	- 5
Total (Item D 17)	- 28	- 411	546	100	- 47	46	- 122

- (1) International Bank for Reconstruction and Development, International Development Association, and International Finance Corporation.
(2) Includes also balancing item representing difference between direct measurements of current and capital accounts.

United States Dollar in Canada

Period	High	Low	Close	Noon average
Canadian cents				
1962 III Q	108.19	107.66	107.66	107.78
IV Q	107.81	107.53	107.72	107.63
1963 I Q	107.94	107.59	107.81	107.76
II Q	107.97	107.59	107.81	107.74
III Q	108.57	107.63	107.78	108.08

The change in Canada's official holdings of gold and foreign exchange during the third quarter, expressed in Canadian dollars, was a decline of \$145 million. About \$12 million of this amount represented sterling holdings which included at the end of the previous quarter amounts required to cover a Government of Canada obligation maturing on the first of July. The value of the decline in official holdings of gold and United States dollars was \$133 million. These holdings, expressed in terms of United States dollars, fell by \$191 million in July and \$31 million in August but rose in September by \$98 million. The July change

reflected a partial repayment, amounting to nearly \$80 million, by Canada to the International Monetary Fund (mentioned below). When announcing the July figures the Minister of Finance said that the greater part of the decline in reserves during the month had occurred on July 18 and 19 just before the announcement that Canada was to be exempted as far as new issues were concerned from the "Interest Equalization Tax" which the President of the United States had proposed to Congress.

Official Holdings of Gold and United States
Dollars, and Related Items

End of period	Official holdings of gold and United States dollars	Net International Monetary Fund position	Other special international financial assistance(1)	Total of foregoing items	
millions of United States dollars					
1962	I Q	1,709	202	-	1,911
	II Q	1,809	- 138	- 350	1,321
	III Q	2,445	- 138	- 350	1,957
	IV Q	2,539	- 138	-	2,401
1963	I Q	2,600	- 138	-	2,462
	II Q	2,692	- 138	-	2,554
	III Q	2,568	- 58	-	2,510
	July	2,501	- 58	-	2,443
	August	2,470	- 58	-	2,412
	September	2,568	- 58	-	2,510

(1) A minus sign (-) indicates assistance to Canada.

At the end of July Canada repurchased from the International Monetary Fund Canadian dollars equivalent to \$79.7 million in United States funds. This reduced the net resources provided to Canada by that institution, expressed in United States dollar terms, from \$138 million to \$58 million. It will be recalled that Canada drew the equivalent of \$300 million from the Fund in June 1962. This drawing was made in pounds sterling (\$100 million), deutsche mark (\$80 million), French francs (\$80 million), Belgian francs (\$20 million) and Netherlands guilders (\$20 million). The repayment in July was made partly in gold (\$21.9 million), partly in United States dollars (\$57.5 million) and the rest in other convertible currencies.

International Monetary Fund: Canada's Position

	Net drawings of foreign currencies by Canada	Net drawings (-) of Canadian dollars by other countries	Sales of Canadian dollars to IMF for gold	IMF holdings of Canadian dollars(1)	Canada's gross IMF position(2)	Canada's net IMF position(3)
millions of United States dollars						
1947	-	-	-	225	375	75
1956	-	- 15	-	210	390	90
1959	-	-	-	397	703	153
1961	I Q	-	-	398	702	152
	II Q	- 10	-	388	712	162
	III Q	- 75	25	338	762	212
1962	I Q	10	-	348	752	202
	II Q	300	40	688	412	- 138
1963	III Q	- 80	-	608	492	- 58

(1) Apart from the transactions shown, these holdings reflect mainly Canada's quota payments made in Canadian dollars. Since members are obligated to maintain the gold value of the IMF's holdings of their currencies, there have also been adjustment payments in Canadian dollars between the IMF and Canada, arising from changes in the exchange rate, which are not reflected because the series are shown in United States dollar equivalents. (2) This is a measure of Canada's drawing potential, i.e. the amount Canada could draw without raising the IMF's holdings of Canadian dollars beyond 200 per cent of quota. (3) This is a cumulative measure of the net resources provided by Canada to the IMF.

Foreign Ownership and Control of Canadian Industry

Estimates of the book value of total investment in selected Canadian industries have now been completed for the end of 1960 and 1961, and permit the calculation of ratios of foreign ownership and control at these dates.

Changes in the industrial classifications employed in the construction of some of the series used in these classifications appear to have given rise to some discontinuities for which adjustments have been made wherever possible. (For a technical note on the statistics see the Canadian Balance of International Payments, 1960 and International Investment Position (DBS Catalogue No. 67-2011 pp 62-63) Some of the changes indicated in the series may reflect changes in the statistical source material.

Canadian owned and Canadian controlled investments in manufacturing enterprises both grew less rapidly in the two years 1960 and 1961 than foreign. As a result foreign ownership rose from 51 to 54 per cent of the total, and foreign control from 57 to 59 per cent. In the petroleum and natural gas industry, on the other hand, the growth of Canadian owned and controlled enterprises appear to have outpaced the foreign, probably due to the growth of natural gas distribution. Foreign ownership fell from 62 to 60 per cent and foreign control from 73 to 69 per cent. In mining and smelting foreign ownership rose from 58 to 62 per cent while foreign control fell from 61 to 59 per cent. While foreign control of railways and other utilities maintained its place, foreign ownership fell.

Taking into account all the foregoing industries and also merchandising and construction, foreign ownership was maintained at 34 per cent, unchanged since 1957. The proportion owned by United States residents edged up from 26 to 27 per cent in 1960. The foreign controlled share of these industries which had been 32 per cent since 1957 also edged up by one percentage point in 1960, with the United States proportion unchanged since 1958 at 26 per cent.

Foreign Ownership and Control of Canadian Industry

Industry classification	TABLE XII				TABLE XIV			
	Non-resident <u>ownership</u>				Non-resident <u>control</u>			
	as a percentage of selected Canadian industries				as a percentage of selected Canadian industries			
	1958	1959	1960	1961	1958	1959	1960	1961
Percentage of total owned or controlled by all non-residents:								
Manufacturing	51	51	52	54	57	57	59	59
Petroleum and natural gas	62	62	62	60	73	73	73	69
Mining and smelting	56	58	60	62	60	61	61	59
Railways	29	27	26	25	2	2	2	2
Other utilities	14	14	14	13	5	5	5	5
Total of above industries and merchan- dising	34	34	34	34	32	32	33	33
Percentage of total owned or controlled by United States residents:								
Manufacturing	40	41	41	43	44	44	44	45
Petroleum and natural gas	56	55	53	51	67	67	64	60
Mining and smelting	47	49	52	54	51	53	53	52
Railways	10	9	9	9	2	2	2	2
Other utilities	12	12	12	11	4	4	4	4
Total of above industries and merchan- dising	26	26	27	27	26	26	26	26

TABLE XVI. Estimated Book Value, Ownership and Control of Capital Employed in Selected Canadian Industries, 1961

(billions of dollars)

Industry classification	Total capital employed				Resident owned capital			
	1958	1959	1960	1961	1958	1959	1960	1961
Manufacturing	11.0	11.7	12.2	12.7	5.4	5.7	5.8	5.9
Petroleum and natural gas	5.1	5.6	6.1	6.7	2.0	2.2	2.3	2.7
Other mining and smelting	2.9	3.1	3.3	3.4	1.3	1.3	1.3	1.3
Railways	4.9	5.2	5.3	5.4	3.5	3.8	3.9	4.0
Other utilities	8.0	8.5	9.2	10.3	6.9	7.3	7.9	9.0
Merchandising and construction	8.5	9.5	9.4	9.8	7.7	8.6	8.5	8.9
Total of above	40.5	43.6	45.6	48.2	26.7	28.8	29.9	31.7
	Non-resident owned capital				United States owned investments			
	1958	1959	1960	1961	1958	1959	1960	1961
Manufacturing	5.6	6.0	6.4	6.8	4.4	4.8	5.1	5.4
Petroleum and natural gas	3.2	3.5	3.7	4.0	2.9	3.1	3.2	3.4
Other mining and smelting	1.7	1.8	2.0	2.1	1.4	1.5	1.7	1.8
Railways	1.4	1.4	1.4	1.4	0.5	0.5	0.5	0.5
Other utilities	1.1	1.2	1.3	1.3	0.9	1.0	1.1	1.1
Merchandising and construction	0.8	0.9	0.9	0.9	0.5	0.6	0.6	0.6
Total of above	13.8	14.8	15.7	16.5	10.7	11.5	12.1	12.9
	Total Canadian and external investment in companies controlled outside Canada				Total Canadian and external investment in companies controlled in the United States			
	1958	1959	1960	1961	1958	1959	1960	1961
Manufacturing	6.3	6.7	7.2	7.5	4.8	5.1	5.4	5.7
Petroleum and natural gas	3.8	4.1	4.4	4.7	3.5	3.7	3.9	4.0
Other mining and smelting	1.8	1.9	2.0	2.0	1.5	1.6	1.7	1.8
Railways	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other utilities	0.4	0.5	0.5	0.5	0.3	0.4	0.4	0.4
Merchandising and construction	0.7	0.8	1.0	1.1	0.5	0.6	0.6	0.6
Total of above	13.1	14.0	15.2	15.7	10.7	11.5	12.0	12.6

Canada's International Investment Position

On later pages of this report there will be found several tables of detail on Canada's international investment position which will be included in the next annual report. These pages supplement the data published in the last issue of these quarterly estimates.

TABLE VII. Canadian Long-Term Investments Abroad,¹ Selected Year Ends, 1926-61

Location and year	Direct investment in branches subsidiaries and controlled companies					Portfolio investments in foreign securities			Total private long-term investments abroad	Government of Canada credits	Total
	Railways and utilities	Industrial and commercial	Mining and petroleum	Other concerns	Total direct investment	Stocks	Bonds	Total portfolio investment			
millions of dollars											
In all countries:											
1926	..	..	..	..	397	..	..	493	890	36	926
1930	..	..	..	..	443	..	..	789	1,232	31	1,263
1939	249	289	123	10	671 ^x	511	208	719 ^x	1,390	31	1,421
1945	239	337	138	6	720	454	167	621	1,341	707	2,048
1947	246	414	155	7	822	426	153	579	1,401	1,816	3,217
1949	276	553	91	6	926	477	161	638	1,564	2,000	3,564
1951	320	723	117	6	1,166	467	142	609	1,775	1,922	3,697
1952	326	765	163	11	1,265	669 ^x	161	830	2,095	1,866	3,961
1953	402	851	215	9	1,477	690	179	869	2,346	1,778	4,124
1954	427	935	245	12	1,619	723	203	926	2,545	1,705	4,250
1955	438	993	291	20	1,742	767	224	991	2,733	1,635	4,368
1956	418	1,106	340	27	1,891	785	221	1,006	2,897	1,565	4,462
1957	425	1,198	410	40	2,073	811	257	1,068	3,141	1,515	4,656
1958	429	1,250	427	43	2,149	868	250	1,118	3,267	1,484	4,751
1959	457	1,343	417	78	2,295	934	249	1,183	3,478	1,451	4,929
1960	456	1,482	459	84	2,481	1,050	265	1,315	3,796	1,418	5,214
1961	498	1,565	444	112	2,619	1,189	276	1,465	4,084	1,379	5,463
In the United States:											
1939	211	176	21	4	412	380	121	501	913	—	913
1945	212	214	25	4	455	317	92	409	864	—	864
1947	217	272	37	5	531	283	83	366	897	—	897
1949	247	413	58	3	721	345	98	443	1,164	—	1,164
1951	288	549	71	4	912	289	87	376	1,288	—	1,288
1952	293	566	95	8	962	450 ^x	86	536	1,498	—	1,498
1953	365	624	123	7	1,119	469	95	564	1,683	—	1,683
1954	390	686	145	10	1,231	490	89	579	1,810	—	1,810
1955	393	710	175	15	1,293	539	89	628	1,921	—	1,921
1956	378	804	190	22	1,394	569	84	653	2,047	—	2,047
1957	380	833	206	32	1,451	593	118	711	2,162	—	2,162
1958	379	833	197	31	1,440	659	111	770	2,210	—	2,210
1959	382	862	191	63	1,498	734	111	845	2,343	—	2,343
1960	374	971	223	64	1,632	827	120	947	2,579	—	2,579
1961	413	1,016	240	78	1,747	938	119	1,057	2,804	—	2,804
In the United Kingdom:											
1939	—	53	—	6	59	22	21	43	102	—	102
1945	—	53	—	1	54	26	27	53	107	561	668
1947	—	64	—	—	64	26	26	52	116	1,331	1,447
1949	—	58	—	1	59	21	19	40	99	1,434	1,533
1951	1	73	—	—	74	17	17	34	108	1,394	1,502
1952	1	80	—	—	81	17	14	31	112	1,357	1,469
1953	1	103	—	—	104	16	13	29	133	1,292	1,425
1954	1	118	—	—	119	17	14	31	150	1,247	1,397
1955	2	128	—	1	131	29	17	46	177	1,202	1,379
1956	3	135	—	1	139	30	16	46	185	1,157 ²	1,342
1957	3	168	—	1	172	33	15	48	220	1,127 ²	1,347
1958	3	196	—	1	200	27	14	41	241	1,080 ²	1,321
1959	10	224	—	1	235	25	12	37	272	1,064 ²	1,336
1960	14	240	—	3	257	26	16	42	299	1,047 ²	1,346
1961	12	271	—	5	288	45	16	61	349	1,030 ²	1,379
In other Commonwealth countries: ³											
1939	7	30	17	—	54	7	15	22	76	—	76
1945	7	34	28	—	69	7	12	19	88	—	88
1947	8	47	30	—	85	7	11	18	103	—	103
1949	6	51	19	—	76	6	8	14	90	—	90
1951	7	61	20	—	88	6	8	14	102	—	102
1952	7	70	35	—	112	6	8	14	126	—	126
1953	6	73	54	—	133	6	8	14	147	—	147
1954	4	74	60	—	138	6	7	13	151	—	151
1955	4	83	72	—	159	7	21	28	187	—	187
1956	8	85	98	—	191	7	21	28	219	—	219
1957	8	93	131	3	235	7	21	28	263	—	263
1958	7	102	150	7	266	8	21	29	295	34	329
1959	8	120	153	10	291	8	19	27	318	35	353
1960	10	121	156	12	299	10	18	28	327	35	362
1961	15	97	145	23	280	11	30	41	321	30	351
In other foreign countries:											
1939	31	30	85	—	146	102	51	153	299	31	330
1945	20	36	85	1	142	104	36	140	282	146	428
1947	21	31	88	2	142	110	33	143	285	485	770
1949	23	31	14	2	70	105	36	141	211	566	777
1951	25	39	26	2	92	155	30	185	277	528	805
1952	25	49	33	3	110	196	53	249	359	509	868
1953	30	51	38	2	121	199	63	262	383	486	869
1954	32	57	40	2	131	210	93	303	434	458	892
1955	39	72	44	4	159	192	97	289	448	433	881
1956	29	82	52	4	167	179	100	279	446	408	854
1957	34	104	73	4	215	178	103	281	496	388	884
1958	40	119	80	4	243	174	104	278	521	370	891
1959	57	137	73	4	271	167	107	274	545	352	897
1960	58	150	80	5	293	187	111	298	591	336	927
1961	58	181	59	6	304	195	111	306	610	319	929

¹ Figures exclude investments of insurance companies and banks which are held mainly against liabilities to non-residents, and subscriptions by the Government of Canada to international financial agencies which are partly offset by short term assets in Canada of these institutions (Table V). Figures include the equity of non-residents in assets abroad of Canadian companies (Table V).

² Excludes deferred interest amounting to \$22 million at the end of 1956, and to \$44 million at the end of subsequent years.

³ Includes investments in Newfoundland prior to 1949.

TABLE IX. Foreign Capital Invested in Canada, Selected Year Ends, 1945-61

Classification by type of investment

Long term investments in Canada by type of investment	A. Owned by all non-residents							B. Owned in United States						
	1945	1956	1957	1958	1959	1960	1961	1945	1956	1957	1958	1959	1960	1961
	millions of dollars													
Government securities:														
Dominion	726	502	501	564	612	611	657	682	340	342	396	383	382	416
Provincial	624	1,081	1,165	1,276	1,585	1,632	1,743	574	1,021	1,099	1,207	1,509	1,544	1,641
Municipal	312	552	660	781	915	1,026	1,038	194	511	620	741	872	977	992
Sub-totals	1,662	2,135	2,326	2,621	3,112	3,269	3,438	1,450	1,872	2,061	2,344	2,764	2,903	3,049
Manufacturing:														
Vegetable products	268	524	577	608	664	720	749	199	401	440	469	509	551	586
Animal products	61	103	108	114	128	132	145	47	91	96	102	115	118	132
Textiles	83	128	128	135	140	141	148	41	70	71	73	79	84	93
Wood and paper products	455	1,081	1,166	1,200	1,211	1,315	1,408	383	911	986	1,021	1,026	1,116	1,204
Iron and products	319	1,083	1,198	1,312	1,451	1,580	1,648	297	891	971	1,038	1,172	1,286	1,339
Non-ferrous metals	274	895	1,031	1,103	1,153	1,155	1,185	209	700	813	879	928	928	969
Non-metallic minerals	57	170	179	207	227	276	286	48	109	111	129	142	151	158
Chemicals and allied products	169	527	582	617	660	698	768	124	371	418	444	473	492	553
Miscellaneous manufactures ..	37	68	82	85	92	98	108	34	62	76	79	86	92	101
Sub-totals (excluding petro- leum refining)	1,723	4,579	5,051	5,381	5,726	6,115	6,445	1,382	3,606	3,982	4,234	4,530	4,818	5,135
Petroleum and natural gas	160	2,275	2,849	3,187	3,455	3,727	4,023	152	2,063	2,570	2,866	3,108	3,184 ^x	3,434
Other mining and smelting	356	1,330	1,570	1,657	1,783	1,977	2,089	277	1,129	1,307	1,386	1,513	1,701	1,818
Public utilities:														
Railways	1,599	1,426	1,396	1,413	1,405	1,406	1,366	720	536	489	489	472	479	506
Other (excluding pipelines and public enterprises)	493	628	661	712	739	743	649	374	460	471	523	544	551	506
Sub-totals	2,092	2,054	2,057	2,125	2,144	2,149	2,015	1,094	996	960	1,012	1,016	1,030	1,012
Wharandising	220	683	715	784	878	872	917	158	496	508	549	612	608	629
Financial	525	1,488	1,782	1,938	2,190	2,380	2,614	285	983	1,202	1,314	1,471	1,587	1,773
Other enterprises	70	207	235	254	284	297	348	62	170	185	200	225	234	282
Miscellaneous investments	284	818	879	1,063 ^x	1,285	1,428	1,681	130	474	489	536	587	653	834
Total investments	7,092	15,569	17,464	19,010	20,857	22,214	23,570	4,990	11,789	13,264	14,441	15,826	16,718	17,966
	C. Owned in United Kingdom							D. Owned in all other countries						
	1945	1956	1957	1958	1959	1960	1961	1945	1956	1957	1958	1959	1960	1961
	millions of dollars													
Government securities:														
Dominion	—	72	64	65	60	48	50	44	90	95	103	169	181	191
Provincial	45	45	47	47	48	47	67	5	15	19	22	28	41	35
Municipal	112	35	34	33	33	32	30	6	6	6	7	10	17	16
Sub-totals	157	152	145	145	141	127	147	55	111	120	132	207	239	242
Manufacturing:														
Vegetable products	66	109	125	124	131	137	136	3	14	12	15	24	32	27
Animal products	6	6	6	6	7	8	7	8	6	6	6	6	6	6
Textiles	38	56	55	60	59	55	53	4	2	2	2	2	2	2
Wood and paper products	64	153	160	155	159	167	174	8	17	20	24	26	32	30
Iron and products	12	153	168	202	194	201	209	10	39	59	72	85	93	100
Non-ferrous metals	64	175	192	195	192	188	180	1	20	26	29	33	39	36
Non-metallic minerals	8	31	34	40	45	55	54	1	30	34	38	40	70	74
Chemicals and allied products	36	137	142	146	153	169	176	9	19	22	27	34	37	39
Miscellaneous manufactures ..	2	4	5	5	5	5	6	1	2	1	1	1	1	1
Sub-totals (excluding petro- leum refining)	296	824	887	933	945	985	995	45	149	182	214	251	312	315
Petroleum and natural gas	7	72	108	134	162	270 ^x	299	1	140	171	187	185	273 ^x	290
Other mining and smelting	60	118	162	171	160	152	147	19	83	101	100	110	124	124
Public utilities:														
Railways	806	765	784	794	783	755	699	73	125	123	130	150	172	161
Other (excluding pipelines and public enterprises)	90	97	112	115	125	125	75	29	71	78	74	70	67	68
Sub-totals	896	862	896	909	908	880	774	102	196	201	204	220	239	229
Wharandising	57	159	174	197	225	214	238	5	28	33	38	41	50	50
Financial	186	284	332	360	413	469	512	54	221	248	264	306	324	329
Other enterprises	6	29	36	41	45	51	50	2	8	14	13	14	12	16
Miscellaneous investments	85	168	177	198	200	211	223	69	176	213	329 ^x	498	564	624
Total investments	1,750	2,668	2,917	3,088	3,199	3,359	3,385	352	1,112	1,283	1,481	1,832	2,137	2,219

TABLE X. Foreign Direct Investment¹ in Canada, Selected Year Ends, 1945-61
Classification by type of business

Direct investment in Canada by type of business	A. Owned by all non-residents							B. Owned in United States						
	1945	1956	1957	1958	1959	1960	1961	1945	1956	1957	1958	1959	1960	1961
	millions of dollars													
Manufacturing:														
Vegetable products	200	441	492	521	578	637	648	140	339	375	403	442	488	504
Animal products	47	91	98	105	119	122	135	44	83	89	95	108	111	125
Textiles	56	105	108	115	117	118	122	28	58	62	63	68	72	78
Wood and paper products	348	847	924	945	951	1,033	1,064	316	726	798	819	822	886	939
Iron and products	277	978	1,089	1,205	1,345	1,441	1,504	272	816	896	961	1,095	1,198	1,248
Non-ferrous metals	211	728	867	926	977	983	1,020	203	663	789	845	892	890	931
Non-metallic minerals	43	143	157	174	198	240	249	39	91	101	110	127	134	140
Chemical and allied products	144	507	561	595	637	671	741	118	358	405	434	460	478	538
Miscellaneous manufactures	33	66	80	82	89	97	106	31	61	75	76	83	91	100
Sub-totals (excluding petroleum refining)	1,359	3,906	4,376	4,668	5,011	5,342	5,589	1,191	3,195	3,590	3,806	4,097	4,348	4,603
Petroleum and natural gas	141	2,144	2,559	2,816	3,082	3,313	3,534	141	1,978	2,380	2,598	2,836	2,885 ^x	3,060
Other mining and smelting	237	908	1,044	1,116	1,223	1,439	1,549	215	857	971	1,030	1,146	1,348	1,451
Utilities (excluding pipelines)	375	292	286	287	282	285	289	358	223	215	216	217	224	228
Merchandising	202	605	621	684	761	757	804	147	428	423	458	505	501	520
Financial	339	818	1,026	1,073	1,289	1,464	1,660	198	551	719	750	904	1,028	1,171
Other enterprises	60	195	217	236	258	272	312	54	160	174	187	207	215	251
Totals	2,713	8,868	10,129	10,880	11,906	12,872	13,737	2,304	7,392	8,472	9,045	9,912	10,549	11,284
	C. Owned in United Kingdom							D. Owned in all other countries						
	1945	1956	1957	1958	1959	1960	1961	1945	1956	1957	1958	1959	1960	1961
	millions of dollars													
Manufacturing:														
Vegetable products	60	95	110	108	117	124	123	—	7	7	10	19	25	21
Animal products	3	4	5	5	6	6	6	—	4	4	5	5	5	4
Textiles	26	47	46	51	49	45	43	2	—	—	1	—	1	1
Wood and paper products	30	120	125	125	127	138	115	2	1	1	1	2	9	10
Iron and products	4	134	147	186	180	185	191	1	28	46	58	70	58	65
Non-ferrous metals	8	49	61	63	64	65	65	—	16	17	18	21	28	24
Non-metallic minerals	4	23	26	30	34	38	37	—	29	30	34	37	68	72
Chemicals and allied products	19	135	139	143	150	162	170	7	14	17	18	27	31	33
Miscellaneous manufactures	2	4	4	5	5	5	5	—	1	1	1	1	1	1
Sub-totals (excluding petroleum refining)	156	611	663	716	732	768	755	12	100	123	146	182	226	231
Petroleum and natural gas	—	56	64	90	116	208 ^x	234	—	110	115	128	130	220 ^x	240
Other mining and smelting	22	48	68	77	68	66	62	—	3	5	9	9	25 ^x	36
Utilities (excluding pipelines)	16	39	37	41	40	40	38	1	30	34	30	25	21	23
Merchandising	51	151	167	191	219	208	231	4	26	31	35	37	48	53
Financial	98	115	131	142	168	198	246	43	152	176	181	217	238	243
Other enterprises	5	28	33	39	41	47	47	1	7	10	10	10	10	14
Totals	348	1,048	1,163	1,296	1,384	1,535	1,613	61	428	494	539	610	788	840

¹ Direct investment covers investment in branches, subsidiaries, and controlled companies; the figures are part of the totals in Tables VIII and IX.

CHANGES IN PRESENTATION

Several changes to improve the presentation of the statistics have been made in the main statement appearing in this report.

Within the capital account the figures for transactions in foreign securities previously shown in the separate components D 6 (Trade in Outstanding Issues), D 7 (New Issues), and D 8 (Retirements) have been consolidated into a single line, although the detail continues to be available in a subsidiary statement to be published quarterly.

A change has been made in the statistical presentation of transactions with international financial agencies with the effect of consolidating in one place changes in Canada's net International Monetary Fund position and showing elsewhere the transactions with other international investment agencies. The change in Canada's net International Monetary Fund position appears as a new item H 2 referred to below. Subscriptions to the other international financial agencies (the International Bank for Reconstruction and Development, International Finance Corporation, and International Development Association) appear in a new component of item D 17 (Other Capital Movements) shown in detail in a subsidiary statement published quarterly. Changes in their short-term Canadian dollar holdings have been incorporated into item D 14 (Change in Canadian dollar holdings of foreigners), which has been subdivided to show separately deposits, Government of Canada demand liabilities and Canadian Treasury bills. This redistribution of the items covering the international financial agencies replaces items D 13 (Subscriptions in gold and United States dollars to international financial agencies), D 15 (Special international financial assistance - except insofar as it originated from foreign central banks and is reflected in a new item H 3) and the elements specified for international financial agencies in D 17 (Other Capital Movements).

The transactions specifically related to Canada's official exchange position appear as a new item H at the bottom of the statement. This treatment of official holdings of gold and foreign exchange was followed in Canadian presentations prior to the withdrawal of fixed exchange rates in 1950. Item H 1 represents the change in official holdings of gold, United States dollars, and sterling; it corresponds to item D 16 used previously but the sign is opposite since the changes are presented as the result of all other transactions in the statement rather than as an independent capital movement. Item H 2 covers changes in Canada's net International Monetary Fund position representing the net resources supplied to or received from that institution. Item H 3 covers other special international financial assistance.

In order that those who wish to do so may be in a position to adjust the annual data for earlier years consistently with the new presentation, the following summary shows the new distribution of the capital movements previously attributed to international financial agencies and other special international financial assistance in items D 13, 15 and 17.

	<u>D 14</u>	<u>D 17</u>	<u>H 2(1)</u>
146	26	- 33	- 1
147	33	- 33	- 74
148	-	-	-
149	1	- 6	-
150	- 5	-	-
151	- 4	-	-
152	- 1	-	-
153	- 18	-	-
154	- 13	-	-
155	- 9	-	-
156	- 2	- 3(2)	- 15
157	1	-	-
158	- 1	-	-
159	3	-	- 59

(1) Expressed as a capital movement.

(2) Reflecting revision of +1.

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Note: Data for 1962
1963 are preliminary and data for 1961 are subject to revision

		1961		1962	
No.		III	IV	I	II
		millions of dollars			
A	Current receipts:				
1	Merchandise exports (adjusted).....	1,557	1,619	1,395	1,620
3	Gold production available for export.....	41	38	43	42
4	Travel expenditures.....	255	85	46	126
5	Interest and dividends.....	40	74	33	52
6	Freight and shipping.....	135	129	104	128
7	Inheritances and immigrants' funds.....	31	25	20	31
11	All other current receipts.....	99	98	107	104
12	Total current receipts.....	2,158	2,068	1,748	2,103
B	Current payments:				
1	Merchandise imports (adjusted).....	1,419	1,559	1,402	1,665
4	Travel expenditures.....	220	125	130	178
5	Interest and dividends.....	170	222	179	205
6	Freight and shipping.....	151	159	125	153
7	Inheritances and emigrants' funds.....	49	47	34	40
9	Official contributions.....	15	20	7	12
11	All other current payments.....	196	208	204	212
12	Total current payments.....	2,220	2,340	2,081	2,465
	Balance on merchandise trade.....	+ 138	+ 60	- 7	- 45
	Balance on other transactions, excluding B9.....	- 185	- 312	- 319	- 305
	Official contributions.....	- 15	- 20	- 7	- 12
C	Current account balance.....	- 62	- 272	- 333	- 362
D	Capital account:				
	Direct investment:				
1	Direct investment in Canada.....	+ 117	+ 100	+ 110	+ 80
2	Direct investment abroad.....	- 12	- 18	- 30	- 30
	Canadian securities:				
3 a	Trade in outstanding bonds and debentures.....	- 11	+ 9	- 3	+ 4
3 b	Trade in outstanding common and preference stocks.....	-	- 5	- 14	- 44
4	New issues.....	+ 125	+ 117	+ 53	+ 194
5	Retirements.....	- 29	- 103	- 72	- 71
6,7,8	Foreign securities.....	- 2	- 15	- 29	- 36
	Loans by Government of Canada:				
9	Drawings.....	-	-	-	-
10	Repayments.....	-	+ 27	+ 3	+ 7
	Change in Canadian dollar holdings of foreigners:				
14 a	Deposits.....	+ 35	+ 35	- 46	- 13
14 b	Government of Canada demand liabilities.....	- 3	- 2	- 3	- 2
14 c	Canadian treasury bills.....	- 34	+ 18	+ 18	+ 50
17	Other capital movements.....	- 135	+ 244	- 28	- 411
E	Net capital movement, exclusive of change in official holdings of gold and foreign exchange.....	+ 51	+ 407	- 41	- 272
H	Official holdings of gold and foreign exchange:				
1	Change in holdings.....	- 62	+ 135	- 364	+ 114
2	Net International Monetary Fund position.....	+ 51	-	- 10	- 367
3	Other special international financial assistance.....	-	-	-	- 381

Notes: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in B 1) the annual reports on "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, B 11) insurance transactions, and business services.

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Note: Data for 1962 are preliminary and data for 1961 are subject to revision
1963

1962		1 9 6 3			Annual Totals		Four Quarters ended		No.
III	IV	I	II	III	1960	1961	1962 Sept. 30, 1963		
millions of dollars									
									A
1,628	1,721	1,482	1,776	1,801	5,392	5,889	6,364	6,780	1
39	41	45	41	38	162	162	165	165	3
294	94	50	132	320	420	482	560	596	4
44	82	43	54	43	173	209	211	222	5
133	133	110	137	142	442	486	498	522	6
42	31	27	38	48	102	103	124	144	7
108	107	108	112	111	419	403	426	438	11
2,288	2,209	1,865	2,290	2,503	7,110	7,734	8,348	8,867	12
									B
1,559	1,583	1,413	1,700	1,666	5,540	5,716	6,209	6,362	1
200	102	117	158	207	627	642	610	584	4
163	234	194	191	177	653	770	781	796	5
158	152	124	159	175	533	568	588	610	6
44	45	40	44	50	181	174	163	179	7
5	8	15	10	13	61	56	32	46	9
193	204	206	215	207	758	790	813	832	11
2,322	2,328	2,109	2,477	2,495	8,353	8,716	9,196	9,409	12
+ 69	+ 138	+ 69	+ 76	+ 135	- 148	+ 173	+ 155	+ 418	
- 98	- 249	- 298	- 253	- 114	-1,034	-1,099	- 971	- 914	
- 5	- 8	- 15	- 10	- 13	- 61	- 56	- 32	- 46	
- 34	- 119	- 244	- 187	+ 8	-1,243	- 982	- 848	- 542	C
									D
+ 145	+ 190	+ 70	+ 40	+ 45	+ 650	+ 515	+ 525	+ 345	1
- 15	- 25	- 20	- 25	- 15	- 50	- 80	- 100	- 85	2
39	+ 24	+ 23	+ 31	- 7	+ 3	+ 63	+ 64	+ 71	3 a
26	- 32	- 57	- 44	- 27	+ 51	+ 40	- 116	- 160	3 b
85	+ 386	+ 410	+ 391	+ 98	+ 447	+ 533	+ 718	+1,285	4
53	- 125	- 53	- 175	- 33	- 265	- 297	- 321	- 386	5
9	- 5	+ 4	+ 12	- 4	- 19	- 33	- 79	+ 7	6,7,8
7	-	-	-	- 8	-	-	- 7	- 8	9
68	+ 51	-	+ 6	-	+ 32	+ 37	+ 129	+ 57	10
47	+ 90	- 29	+ 38	- 12	+ 79	+ 35	- 16	+ 87	14 a
3	+ 4	-	- 3	- 1	- 12	- 2	- 4	-	14 b
3	- 61	+ 9	- 19	+ 19	+ 56	- 58	+ 4	- 52	14 c
546	+ 100	- 47	+ 46	- 122	+ 232	+ 519	+ 207	- 23	17
720	+ 597	+ 310	+ 298	- 67	+1,204	+1,272	+1,004	+1,138	E
686	+ 101	+ 66	+ 111	- 145	- 39	+ 229	+ 537	+ 133	H
-	-	-	-	+ 86	-	+ 61	- 377	+ 86	1
-	+ 377	-	-	-	-	-	- 4	+ 377	2
									3

Notes: D A minus sign indicates an outflow of capital from Canada.

D 1,2 Exclusive of undistributed profits.

D 17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.

H 3 A minus sign indicates a receipt by Canada.

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QUARTERLY ESTIMATES OF THE CANADIAN
BALANCE OF INTERNATIONAL PAYMENTS
FOURTH QUARTER 1963

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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FOURTH QUARTER 1963 AND PRELIMINARY ESTIMATES FOR THE YEAR 1963

There was a further contraction in the size of the deficit in Canada's international current account to \$521 million in 1963 from \$848 million in 1962. This improvement was distributed over each quarter of the year. It was brought about by a tripling in the size of the export balance from merchandise trade with the larger expansion in exports than in imports. This export balance of \$484 million was close to half as much as the deficit of \$1,005 million from all non-merchandise transactions. The latter balance was virtually unchanged from 1962 because of offsetting movements in leading components. While a further improvement in travel led to a small credit balance, there were in the opposite direction larger transfers of interest and dividends and an increased volume of exports financed by official contributions.

A significant part of the expansion in exports in 1963 was the larger sale of wheat which made up more than \$200 million of the total rise of \$700 million in the year. The major new element in this rise was the deliveries to the Soviet Union which were concentrated in the final quarter of the year. Larger and more diversified exports of manufactured goods made up another significant part of the export rise, and there were also varied gains in sales of various metals, forest products and other primary products. In the fourth quarter the current account deficit was slightly reduced to \$108 million from the deficit in the same quarter of 1962. A larger export balance on merchandise account which reflects large sales of wheat to the U.S.S.R. was partly offset by larger transfers of interest and dividends and increased official contributions.

Among leading factors in the economic background influencing the balance of payments were rising economic activity in North America and in major markets abroad such as the United Kingdom, Japan and some countries of Western Europe. Along with this combination of strong influences was an apparent improvement in the competitive position of Canadian industry. Besides the increased export of many products there has been an extension in the range of Canadian consumption which has been met from production in Canada. This has had the effect of replacing merchandise imports which represented a smaller ratio of national expenditure than in similar stages of earlier periods of expansion. The devaluation of the Canadian dollar in 1962 together with tendencies to rising relative prices and costs in manufacturing countries abroad, has contributed to these changes. Official measures such as export credits, industry policies, defence sharing and the temporary import surcharges which were still in effect in the early months of 1963 have also contributed to the change.

Summary Statement

	1959	1962	1963	1962	1963				
				IV Q	I Q	II Q	III Q	IV Q	
	millions of dollars								
Merchandise trade balance ...	- 422	+ 155	+ 484	+ 138	+ 70	+ 72	+ 144	+ 198	
Deficit on non-merchandise transactions	- 1,082	- 1,003	- 1,005	- 257	- 308	- 261	- 130	- 306	
Current account balance	- 1,504	- 848	- 521	- 119	- 238	- 189	+ 14	- 108	
Capital movements(1)	+ 1,493	+ 1,004	+ 667	+ 597	+ 304	+ 300	- 73	+ 136	
Long-term forms	+ 1,148	+ 672	+ 584	+ 458	+ 373	+ 200	+ 34	- 23	
Short-term forms	+ 345	+ 332	+ 83	+ 139	- 69	+ 100	- 107	+ 159	
Change in official exchange holdings(2)	- 11	+ 156	+ 146	+ 478	+ 66	+ 111	- 59	+ 28	

(1) Excluding change in official exchange holdings.

(2) Gold, foreign exchange, and net International Monetary Fund position, less special international financial assistance.

Capital movements in 1963 were influenced by various new background factors. Among these was the interest equalization tax legislation announced by the President of the United States in July. This affected the investment climate immediately and contributed to the very different patterns of capital flows in the second half from those in the earlier part of the year. Whereas in the first two quarters there were substantial inflows in long-term forms, mainly arising through a concentration of borrowing in the United States, in the third quarter the net inflow in these forms was sharply reduced and was accompanied by net outflows in short-term forms. In the fourth quarter the net movement in long-term forms was outward while short-term movements were inward. Another influence on the size of some capital flows like direct investments was the existence of fewer very large investment projects financed by this type of movement and of fewer "takeovers".

The current account deficit in 1963 was approximately one-third of the peak imbalance of \$1,504 million which occurred in 1959. In that year there was a large negative balance on merchandise account in contrast to the positive balance which featured 1963, and the favourable change in the balances between the two years was \$906 million due to a much larger rise in exports than in imports. On non-merchandise account there has been a reduction since 1959 of \$77 million in the overall deficit, which was mainly the result of the improvement on travel account. But while there was a favourable change in the travel balance of \$220 million in this period, this was partly offset by larger payments of interest and dividends and for business services. Important elements in the rise in exports between 1959 and 1963 from \$5,150 million to \$7,064 million have been increased sales of wheat, metals, forest products, petroleum and natural gas, and manufactured goods.

Canada's balance of international indebtedness continues to rise, although at a somewhat reduced rate. This measure is the amount by which the value of foreign investments in Canada and other kinds of liabilities abroad exceeds external assets owned by Canadians. By the year end it was of the order of \$19 1/2 billion. This rise from \$17.9 billion at the end of 1961 reflects principally the net capital inflow in the two-year period and the net undistributed earnings accruing to non-residents during it, tempered by increases in the value of Canada's external assets arising from the increased value of foreign currencies in terms of Canadian funds. At \$19 1/2 billion the balance has grown in the last seven years nearly as much as the total accumulated balance of indebtedness up to that time.

The fourth quarter

Canada's deficit with all countries narrowed about 10 per cent from \$119 million to \$108 million between the December quarters of 1962 and 1963. This change was brought about by an increase from \$138 million to \$198 million in the commodity surplus, counterbalanced by a widening in the non-merchandise deficit from \$257 million to \$306 million. As the deficit with the United States on merchandise account more than doubled from \$78 million to \$162 million, the amelioration occurred wholly in trade with overseas countries. Within this group, huge shipments of wheat to the U.S.S.R. represented one outstanding element in the favourable trade situation in the closing quarter of 1963. The merchandise trade balance with the United Kingdom was unchanged while the balances with the Rest of the Sterling Area and other OECD countries deteriorated moderately in comparison with the final quarter of 1962.

Most of the \$49 million expansion in the deficit on "invisibles" occurred in transactions with the United States. A substantial rise in interest and dividend payments, particularly on direct investment, and more moderately higher net payments on other items such as freight services and migrants' funds and inheritances contributed to widening the over-all deficit on non-merchandise transactions with the United States. Increases in receipts of interest and dividends and in net travel receipts provided minor offsets.

After allowance for normal seasonal variations, the deficit with the rest of the world in the fourth quarter stood almost 20 per cent below the level for 1963 as a whole, but was substantially less than the high rate in the third quarter. In the last quarter, the surplus on merchandise account was some 20 per cent above the 1963 level. During the year, the merchandise surplus was highest in the June and December quarters, but changes in the individual balances of service items were generally not pronounced. Freight and shipping recorded the widest deficit in the September quarter and net payments of interest and dividends increased appreciably in the same quarter.

The shape of the capital account in the fourth quarter was greatly altered, reflecting in part at least the continuation of trends established earlier and the impact of previous developments. Long-term capital inflows continued to contract from the low levels (apart from deferred deliveries of new issues) characteristic after the first quarter of 1963. The phasing out of some direct investment projects played a part, and the bite of the United States interest equalization tax proposal became increasingly felt in the figures, although a number of other influences can also be pointed to,

including the earlier prepayment of intergovernmental debt. The result was a small outflow in long-term forms. Movements in short-term forms, on the other hand, were inwards and large. Commercial and finance company paper was one important form of inflow. It seems clear that some major re-evaluations of economic and financial prospects followed the announcement in September of the new wheat contracts and were a pervasive influence in the international movement of short-term capital quite apart from the actual export transactions themselves.

Export balance on merchandise trade

The surplus on Canada's merchandise trade tripled from \$155 million in 1962 to \$484 million in 1963. In current dollars, this positive balance just about equalled an exceptional surplus in 1952. After adjustment for balance of payments purposes, exports expanded \$700 million, or 11 per cent, from \$6,364 million in 1962 to \$7,064 million in 1963. At the same time imports rose from \$6,209 million to \$6,580 million, or up 6 per cent. Both trade totals stood at the highest recorded levels, following uninterrupted gains in exports after 1959 and with imports increasing in successive years after 1960.

Export gains were widespread over many commodities, and significant declines in shipments during 1963 were seen for a relatively small number of commodities. Shipments of wheat recorded the sharpest increase of well over \$200 million, due mainly to large sales to the U.S.S.R. and to some other countries in Eastern Europe. Exports of lumber and other wood materials advanced \$70 million, those of railway rolling stock, automobiles and other vehicles over \$50 million, and those of iron ore about the same amount. Shipments of machinery rose about \$45 million and those of wood pulp and semi-fabricated steel each about \$35 million. The value of exports of navigational systems and electronic control equipment almost doubled to \$64 million in 1963. Gains covering aluminum, newsprint and other paper materials, and fertilizers were smaller, with aluminum increasing over \$20 million and the other two groups each about \$15 million. While recorded exports of aircraft declined from the unusually high level of 1962, there were offsetting prepayments referred to later in connection with adjustments to merchandise trade for balance of payments purposes. In 1962 there had been deliveries abroad of a large number of Canadian-built swing-tail jet cargo aircraft. The decline in uranium exports was extended in 1963 with a reduction of nearly \$30 million. Shipments of cattle to the United States were valued at about \$25 million below 1962.

On account of the huge Russian wheat purchase, the proportion accounted for by the group covering food, beverage and tobacco of total Canadian commodities exported rose from 19 per cent to over 21 per cent in 1963. The share of this group in 1961 was nearly 21 per cent. The proportion for crude and fabricated materials declined from 69 per cent in 1961 and 1962 to 66 per cent in 1963, while that for manufactured products rose from nearly 9 per cent to 10 1/2 per cent and to almost 11 1/2 per cent during the three-year period.

Adjustments to regular statistics on the Trade of Canada added in excess of \$80 million to the export trade total, in comparison with about \$15 million in the preceding year; and they covered in 1963 items such as progress payments on manufacture in Canada of aircraft for overseas NATO countries under United States military assistance, clearances of wheat and shipments from custom warehouses. The positive adjustment to the import trade aggregate, analyzed below, was much smaller, and comprised among other items imports into custom warehouses and progress payments on civil aircraft and for defence. The corresponding adjustment for 1962 was a sizable negative one to take account primarily of non-cash acquisition of defence goods.

As indicated earlier the rise in imports has been relatively less than in former periods of general business expansion. There has been an evident tendency for more import replacement by Canadian producers than formerly, which has been encouraged by exchange devaluation and temporary import surcharges still in effect in the first quarter of 1963.

The 6 per cent expansion in imports from \$6,209 million to \$6,580 million in 1963 was distributed over industrial materials, machinery and consumer goods. In a comparison of 11-month totals of the two years, imports of raw sugar were about \$60 million higher in 1963, and the increase covering fruits and fresh meat was about half as large. Imports of farm equipment and tractors rose over \$60 million, of crude petroleum and products more than \$30 million. Less substantial increases occurred in imports of iron ore and scrap iron; semi-fabricated steel; tools; and engines. A gain in 1963 in imports of automobile parts slightly exceeded the decline in purchases from abroad of automobiles. Following an increase of some 20 per cent between 1961 and 1962 in the imports of automobiles, automobile parts and other vehicles, the rise for this group in 1963 was only about 1/10 as great. After appreciable increases in 1962 of about \$60 million and \$70 million respectively in the imports of electrical apparatus and non-farm machinery, imports of some commodities within these groups declined moderately in 1963. With adjustment for balance of payments use, imports of aircraft were also moderately lower in 1963.

As there was only a small rise in export prices of around one per cent in 1963 most of the increase in export values was in the volume of exports. In comparing corresponding months of the two years, most of the price rise was seen during the first half year. The Canadian dollar was devalued and stabilized in May 1962. With imports on the other hand there were more significant price increases within the year, but these were concentrated in the prices of sugar and a few other primary commodities. In addition there were the effects of the devaluation of the Canadian dollar upon import prices in comparisons with earlier months of 1962. Consequently only a part of the increased value of imports for the year as a whole reflects a rise in volume, although gains in volume were general in the latter part of the year.

Deficit on services and other non-merchandise items

The imbalance on non-merchandise transactions was practically unchanged at a deficit of \$1,005 million in 1963, following a 13 per cent decline in the deficit on these transactions from the peak of

Major Items in the Balance on Non-Merchandise Transactions

	1961	1962	1963	Change in 1963
	millions of dollars			
Gold production available for export	+ 162	+ 165	+ 166	+ 1
Travel	- 160	- 50	+ 13	+ 63
Interest and dividends ...	- 561	- 570	- 614	- 44
Freight and shipping	- 82	- 90	- 85	+ 5
Inheritances and migrants' funds	- 71	- 39	- 33	+ 6
Official contributions ...	- 56	- 32	- 61	- 29
All other current transac- tions	- 387	- 387	- 391	- 4
Balance on non-merchandise transactions	- 1,155	- 1,003	- 1,005	- 2

\$1,155 million in 1961 to \$1,003 million in 1962. Among service items, the most noteworthy change in the year was a turn-around of \$63 million in the travel balance from a deficit of \$50 million to a surplus of \$13 million in 1963. Although the improving trend was evident since 1960, this betterment was less than in 1962. On the other hand, net payments of interest and dividends increased \$44 million, or by 8 per cent, and official contributions at \$61 million, up \$29 million from \$32 million in 1962, were restored to the average level of contributions for recent years. Deficits on freight and shipping and on inheritances and migrants' funds narrowed moderately, and the value of gold production

available for export at \$166 million was a shade higher in 1963, while a small rise took place in the deficit on all other current transactions.

The proportion of the "invisible" deficit attributable to interest and dividends expanded from 57 per cent in 1962 to 61 per cent in 1963. The changes in the shares of other items were smaller, except travel expenditures, which accounted for 14 per cent and 5 per cent of net service payments in 1961 and 1962 respectively, but which yielded a small surplus in 1963.

Travel Expenditures

	1960	1961	1962	1963	Change in 1963
	millions of dollars				
Receipts:					
United States	375	435	510	549	+ 39
Overseas	45	47	50	53	+ 3
All countries	420	482	560	602	+ 42
Payments:					
United States	462	459	420	392	- 28
Overseas	165	183	190	197	+ 7
All countries	627	642	610	589	- 21
Balance					
United States	- 87	- 24	+ 90	+ 157	+ 67
Overseas	- 120	- 136	- 140	- 144	- 4
All countries	- 207	- 160	- 50	+ 13	+ 63

Successive improvements in the travel balance from the record level deficit of \$207 million in 1959 and 1960 was extended in 1963, with the emergence of a small surplus of \$13 million, the first since 1950. This improvement has been concentrated in transactions with the United States as the deficit with the overseas has risen very gradually over the three recent years, with the Canadian expenditures for travel overseas increasing slightly more than receipts in Canada from visitors from overseas countries. Canadian travel expenditures overseas however have not risen proportionately as much as the volume of this group of travellers.

In transactions with the United States, expenditures by American visitors have increased nearly 50 per cent from \$375 million in 1960 to \$549 million in 1963, while travel outlays by Canadians in the United States have declined, but less substantially from \$462 million in 1960 to \$392 million in 1963. In this year alone the rise in receipts amounted to \$39 million, or over 7 per cent, while the contraction in payments was estimated at \$28 million, or nearly 7 per cent. Visitors to Canada arriving by automobile accounted for most of the gain in receipts, and longer visits as well as more visitors contributed to this gain. On the other hand, although more Canadians visited the United States, average expenditures tended to be lower than in the previous year. Duty-free tourist purchases in the United States declined well over \$10 million, and as the privilege was curtailed at the end of June 1962, the contraction in these imports occurred between the first halves of 1962 and 1963.

The deficit on interest and dividends widened nearly 8 per cent from \$570 million to the highest recorded level of \$614 million in 1963. Both receipts at \$228 million and payments at \$842 million were higher than ever before, but the absolute increase in payments was more than three times as large as

Interest and Dividends: Payments

Period	Total	Interest	Dividends
millions of dollars			
1961	770	259	511
1962	781	285	496
1963	842	317	525
1962 I Q	179	67	112
II Q	205	76	129
III Q	163	62	101
IV Q	234	80	154
1963 I Q	196	70	126
II Q	192	89	103
III Q	181	70	111
IV Q	273	88	185

that in receipts during 1963. The latter rose from \$211 million to \$228 million, from enhanced receipts of interest, which were largely represented by increased earnings on official account. Payments of interest and dividends advanced nearly 8 per cent from \$781 million to \$842 million, with the increase distributed nearly evenly between the two components. Interest payments rose over 10 per cent to \$317 million. Sales to non-residents of new bonds were the largest factor in enhanced interest payments. Trade in outstanding securities accounted for a much smaller increment, but retirements of Canadian bonds had the effect of partially offsetting the increase. Roughly 90 per cent of the additional interest, arising from new sales of bonds, was paid in the last three quarters of 1963. Large sales of Government of Canada and provincial issues and corporation bonds in 1962 produced increased interest payments in the second quarter of 1963, and in addition substantial sales of corporate bonds in the June quarter yielded higher interest payments in the last quarter of 1963.

Dividend payments rose nearly 6 per cent from \$496 million in 1962 to \$525 million in 1963; and under two-thirds of this increase was attributable to dividends on direct investment. The remainder of the rise was divided about equally between dividends paid on portfolio investment and net profits of unincorporated branches in Canada of foreign companies. Transfers of dividends by subsidiaries followed an irregular course during the year. Payments in the second quarter were much less than in the previous year while the first, third and fourth quarters were higher, with the main increase occurring in the final quarter.

A new factor applying to transfers in the second half was introduced in the June Budget with the lowering in the withholding tax rate from 15% to 10% on dividends paid to non-residents by certain Canadian companies. On the other hand non-resident holdings of stocks have been reduced by persistent liquidations over the past several years.

With expanding exports and imports, both receipts and payments on freight and shipping services rose, the former by 10 per cent to \$550 million and the payments by 8 per cent to \$635 million. The deficit on transportation accordingly narrowed \$5 million to \$85 million. Higher receipts of inland freight on exports accounted for a large proportion of the gain in freight receipts, and expenditures of foreign ships in Canada were also greater, but more moderately so. Likewise, inland freight on imports from the United States and expenditures abroad of Canadian shipping lines accounted for most of the additions to freight payments.

Increases of \$25 million and \$19 million respectively in receipts and payments of migrants' funds and inheritances raised these totals to \$149 million and \$182 million, and reduced the deficit \$6 million to \$33 million. The rise in receipts was attributable to a 25 per cent gain in the number of immigrants in 1963, offset by slightly lower per capita funds from the unusually high average of the preceding year. An increase in the number of Canadians leaving the country for residence abroad brought about the rise in payments. Following an increase of \$1 million to \$166 million, the value of gold production available for export in 1963 stood slightly above the average for this item in the sixties.

Among the other "invisibles", so far not described, official contributions registered the largest change in expanding from an unusually low level of \$32 million in 1962 to \$61 million in 1963.

Miscellaneous Current Transactions

	Receipts		Payments	
	1962	1963	1962	1963
	millions of dollars			
Government, excluding official contributions ..	114	120	149	161
Personal and institutional remittances	26	26	91	94
Miscellaneous income	102	94	143	140
Business services	184	204	430	440
Total	426	444	813	835
Balance	-	-	- 387	- 391

The provision of capital assistance and technical aid under the Colombo Plan doubled in the year to nearly \$50 million. Fairly small and offsetting changes in net payments on other items such as other government expenditures, business services miscellaneous income and personal remittances raised the deficit from \$387 million to \$391 million in 1963.

Transactions by areas

A sharp rise in the surplus on current transactions of \$369 million, or nearly 140 per cent, with overseas countries, offset in part by a slight widening in the deficit with the United States of less than 4 per cent, or \$42 million, combined to produce the fall in Canada's overall deficit on current account from \$848 million to \$521 million in 1963. This was the reversal of the change that took place in 1962, when the deficit with the United States narrowed about one-fifth and the surplus with

overseas countries fell about a third. Within the overseas group, about one-half of the change was ascribable to transactions with the United Kingdom alone. Increased shipments of wheat to the U.S.S.R. were large enough to account for the remainder of the expansion in the overseas surplus.

With the United States

The small increase in the deficit on Canada's transactions with the United States from \$1,116 million to \$1,158 million followed about a 5 per cent increase in both receipts and payments for goods and services. Total receipts were up \$291 million to \$5,474 million in 1963, while total payments grew \$333 million to \$6,632 million. Both merchandise exports and imports rose nearly 6 per cent, the former from \$3,742 million to \$3,952 million, up \$210 million. Merchandise imports increased \$247 million to \$4,464 million. Among exports to the United States, shipments of iron ore and concentrates advanced over 20 per cent to \$214 million. Shipments of softwood lumber rose 10 per cent to over \$313 million, those of aluminum 18 per cent to \$120 million, and those of wood pulp 4 per cent to \$310 million. More moderate increases were recorded in exports of a variety of other commodities such as whisky, nickel ores, farm machinery, electronic equipment and fertilizers. A sizable fall of over \$50 million took place in shipments of uranium; and exports of cattle declined more moderately.

A large part of the \$247 million increase in merchandise imports from the United States covered commodities of iron and steel, such as automobile parts, farm equipment and tractors and parts. On the basis of 11-month totals, imports of automobiles and some types of non-farm machinery were lower in 1963

The deficit on non-merchandise transactions with the United States increased \$5 million to \$646 million. A substantial expansion of roughly 75 per cent on net travel receipts was more than counterbalanced by widened deficits on some other non-merchandise items. References to these changes appear in the section on an overall consideration of service transactions.

With the United Kingdom

The rising course since 1959 of Canada's surplus in transactions with the United Kingdom was extended in 1963, when the largest expansion in this recent period of \$181 million occurred. The surplus of \$394 million, arising from total receipts of \$1,279 million and payments of \$885 million, was the highest since 1949, and stood slightly above that of \$388 million in 1952. Nearly 80 per cent of the improvement was ascribable to merchandise trade, the surplus going up some 40 per cent to \$492 million.

Summary of Current Transactions with the United States, United Kingdom and
Other Countries 1962 and 1963, and Changes Between the Periods

	1962	1963	Change	1962	1963	Change
	millions of dollars					
	All countries			United States		
<u>Fourth quarter</u>						
Merchandise exports (adjusted)	1,721	2,009	+ 288	978	1,030	+ 52
Merchandise imports (adjusted)	1,583	1,811	+ 228	1,056	1,192	+ 136
Balance on merchandise trade	+ 138	+ 198	+ 60	- 78	- 162	- 84
Other current receipts	488	529	+ 41	327	345	+ 18
Other current payments	745	835	+ 90	531	593	+ 62
Balance on non-merchandise transactions	- 257	- 306	- 49	- 204	- 248	- 44
Total receipts	2,209	2,538	+ 329	1,305	1,375	+ 70
Total payments	2,328	2,646	+ 318	1,587	1,785	+ 198
Current account balance	- 119	- 108	+ 11	- 282	- 410	- 128
<u>Calendar year</u>						
Merchandise exports (adjusted)	6,364	7,064	+ 700	3,742	3,952	+ 210
Merchandise imports (adjusted)	6,209	6,580	+ 371	4,217	4,464	+ 247
Balance on merchandise trade	+ 155	+ 484	+ 329	- 475	- 512	- 37
Other current receipts	1,984	2,139	+ 155	1,441	1,522	+ 81
Other current payments	2,987	3,144	+ 157	2,082	2,168	+ 86
Balance on non-merchandise transactions	- 1,003	- 1,005	- 2	- 641	- 646	- 5
Total receipts	8,348	9,203	+ 855	5,183	5,474	+ 291
Total payments	9,196	9,724	+ 528	6,299	6,632	+ 333
Current account balance	- 848	- 521	+ 327	- 1,116	- 1,158	- 42
	United Kingdom			Other countries		
<u>Fourth quarter</u>						
Merchandise exports (adjusted)	249	266	+ 17	494	713	+ 219
Merchandise imports (adjusted)	131	147	+ 16	396	472	+ 76
Balance on merchandise trade	+ 118	+ 119	+ 1	+ 98	+ 241	+ 143
Other current receipts	75	84	+ 9	86	100	+ 14
Other current payments	83	86	+ 3	131	156	+ 25
Balance on non-merchandise transactions	- 8	- 2	+ 6	- 45	- 56	- 11
Total receipts	324	350	+ 26	580	813	+ 233
Total payments	214	233	+ 19	527	628	+ 101
Current account balance	+ 110	+ 117	+ 7	+ 53	+ 185	+ 132
<u>Calendar year</u>						
Merchandise exports (adjusted)	924	1,017	+ 93	1,698	2,095	+ 397
Merchandise imports (adjusted)	575	525	- 50	1,417	1,591	+ 174
Balance on merchandise trade	+ 349	+ 492	+ 143	+ 281	+ 504	+ 223
Other current receipts	227	262	+ 35	316	355	+ 39
Other current payments	363	360	- 3	542	616	+ 74
Balance on non-merchandise transactions	- 136	- 98	+ 38	- 226	- 261	- 35
Total receipts	1,151	1,279	+ 128	2,014	2,450	+ 436
Total payments	938	885	- 53	1,959	2,207	+ 248
Current account balance	+ 213	+ 394	+ 181	+ 55	+ 243	+ 188

Merchandise exports increased from \$924 million to \$1,017 million, up 10 per cent, while merchandise imports contracted nearly 10 per cent from \$575 million to \$525 million. In 1963, shipments of uranium rose \$24 million, followed by those of wheat, which advanced about \$20 million. Following a fairly sizable decline in 1962, exports of iron ore gained more than \$11 million. Other increases were recorded in exports of oil cake and meal, lumber, wood pulp, copper and nickel, while declines occurred in exports of tobacco and newsprint. Most of the \$50 million reduction to \$525 million in imports from the United Kingdom occurred in commodities of iron and steel, and in particular, automobiles.

Current Account Balances with
Principal Countries and Areas

	1961	1962	1963	Change in 1963
	millions of dollars			
United States	- 1,386	- 1,116	- 1,158	- 42
Overseas:	+ 404	+ 268	+ 637	+ 369
United Kingdom	+ 187	+ 213	+ 394	+ 181
Other Sterling Area	+ 27	+ 11	- 20	- 31
Other OECD countries	- 31	- 70	- 86	- 16
Other countries	+ 221	+ 114	+ 349	+ 235
All countries	- 982	- 848	- 521	+ 327

With "other countries"

The substantial improvement in Canada's surplus in transactions with other countries took place with countries outside the Sterling Area and other OECD groups. With respect to the two latter areas, there was a deterioration amounting to \$47 million. With the remaining countries, however, the surplus tripled from \$114 million to \$349 million; and nearly 90 per cent of this gain was concentrated in commodity trade. Merchandise exports increased about 40 per cent from \$736 million to \$1,024 million, while imports rose over 10 per cent from \$628 million to \$706 million. In reflection of poor crop conditions overseas, clearances of wheat to Russia alone in 1963 amounted to nearly \$180 million, with none being shipped in 1962, but shipments of wheat to Mainland China declined almost \$50 million from the peak in 1962. In addition barley exports to China were more than \$10 million lower in 1963. Exports to Japan, on the other hand, rose nearly 40 per cent to a shade under \$300 million. Exports to Latin America were up about \$50 million, or 20 per cent, to almost \$290 million. Within this area the largest gains appeared in exports to Argentina and Mexico, and smaller increases to Colombia, Peru, Venezuela and Cuba. The rise to Argentina was mainly in locomotives, and this commodity was featured also in increased exports to Mexico. About one-half of the \$78 million increase in imports from the other countries group was accounted for by larger imports of raw sugar from Cuba and greater purchases of crude petroleum from countries including Iran, Saudi Arabia and Venezuela. A sizable gain in earnings on inland freight on exports accounted for an appreciable share of the \$25 million expansion to \$31 million in the surplus on service transactions.

With Rest of the Sterling Area and other OECD countries

A slow deterioration since 1960 in the balance of current transactions with the Rest of the Sterling Area and the other OECD countries continued in 1963. A surplus with the former area of \$11 million in 1962 changed into a deficit of \$20 million in 1963, while the deficit with the latter group rose slightly from \$70 million to \$86 million. Most of the change with the Rest of the Sterling Area was due to larger official contributions, and with the OECD group, a greater expansion in net payments on service transactions outweighed the gain in commodity surplus. The swing from a near balance in service transactions with the Rest of the Sterling Area to a deficit of \$20 million was attributable to higher official contributions, in particular to the recovery of disbursements financing exports under the Colombo Plan. The change in merchandise trade balance with the RSA, which resulted from over 20 per cent rises in both exports and imports in 1963, was only slight, but a factor in the former was the financing by official contributions of a larger volume of goods. Largest gains took place in exports to the Republic of South Africa and to India. Wheat accounted for most of the increase to the former but shipments of lumber, automobiles and trucks were up as well. Larger exports to India included

The deficit of \$136 million in 1962 on non-merchandise transactions with the United Kingdom was reduced nearly 30 per cent to \$98 million. This change of \$38 million was derived from increased net receipts amounting together to \$30 million on freight and shipping services and migrants' funds and inheritances. In addition there was a cut of some \$20 million in the deficit on "miscellaneous current transactions", which was in part offset by a widening by a smaller degree in net payments on travel, interest and dividends. Expenditures on government account, including defence, were down, and the deficits on other items of miscellaneous current transactions were also lower.

rails, copper, asbestos, turbines and wheat. Raw sugar was the most important single commodity contributing to enhanced imports from the RSA with prices considerably higher in 1963.

On merchandise account with the other OECD countries, a 6 per cent advance in exports offset by that of over 3 per cent in imports added some \$20 million, or 13 per cent, to the surplus. On the other hand, the deficit from non-merchandise transactions with the other OECD countries rose to a new peak and continued to exceed the merchandise surplus by a wide margin. With the exception of slightly larger receipts of migrants' funds and inheritances, the deficits on other non-merchandise items, in particular government expenditures, widened in 1963.

Capital Movements

The effects of some of the developments described earlier can be readily identified in the statistics of capital movements between Canada and other countries in 1963. Capital in long term forms began to flow into Canada again on a substantial scale following the crisis of mid-1962. It continued to do so on a reducing scale until the final quarter of 1963 being equivalent over the year as a whole to 112 per cent of the current account deficit. Portfolio investment, mainly taking the form of purchases by non-residents of new issues of Canadian securities, accounted for a major part of the inflow in 1963, supplanting direct investment which had held prime place since 1950 with the exception of the four years from 1956 to 1959.

A series adjusting the inflows to reflect the timing of contracts for the sale of new issues of Canadian bonds and debentures rather than deliveries made in subsequent quarters (at which time actual capital movements occur) shows them to have been heavily concentrated in the last half of 1962 and the first quarter of 1963. It is perhaps to this series that one should relate the Canadian budgetary measures introduced in mid-June and the special message to Congress by the President of the United States in mid-July. These policy measures no doubt also contributed to the swings in movements of capital in short-term forms, as did the announcement in mid-September of major wheat export contracts. The impact of the latter transactions themselves and of their contribution to the general economic outlook was clearly diffused through a number of the short-term capital items.

Movements of capital for direct investment, portfolio stocks and bonds, official loans, and other long-term investments resulted in a net inflow of \$584 million in 1963. Their total was smaller than in 1962, and indeed less than for any year since 1955, but for the first time since 1956 they were greater than the current account deficit incurred in the year. In 1956 the inflows in long-term forms aggregated a record \$1,424 million while the current account deficit was \$1,366 million, a figure subsequently exceeded on two occasions. In 1962 the inflow of \$672 million in long-term forms was equivalent to about 80 per cent of the current account deficit of \$848 million in that year.

Summary	1962				1963			
	I Q	II Q	III Q	IV Q	I Q	II Q	III Q	IV Q
	millions of dollars							
Capital movements in long-term forms	+ 5	- 29	+ 238	+ 458	+ 373	+ 200	+ 34	- 23
Capital movements in short-term forms(1)	- 46	- 243	+ 482	+ 139	- 69	+ 100	- 107	+ 159
Balance on goods and services	- 333	- 362	- 34	- 119	- 238	- 189	+ 14	- 108
Change in official holdings of gold, foreign exchange, and net International Monetary Fund position, less special international financial assistance	- 374	- 634	+ 686	+ 478	+ 66	+ 111	- 59	+ 28

(1) Excluding items in final line.

In contrast to 1962 when the capital inflows in long-term forms occurred entirely in the second half of the year, following the action taken to restore balance in Canada's external finances, the inflows in 1963 were largely confined to the first half of the year. Broadly speaking it may be said that 1962 was divided by the exchange crisis which occurred in June, while the year 1963 found a dividing point in the announcement of tax measures in Canada and in the United States. But these watersheds represent an oversimplification which may conceal or obscure both the interaction of developing situations and the lags between decisions and flows which were of some real significance in these years.

Capital Inflows in Long-Term Forms

Period	Actual Inflow	Adjusted to reflect timing of security contracts
millions of dollars		
1962 First Quarter	+ 5	+ 107
Second "	- 29	- 140
Third "	+ 238	+ 534
Fourth "	+ 458	+ 460
1963 First Quarter	+ 373	+ 503
Second "	+ 200	- 38
Third "	+ 34	- 42
Fourth "	- 23	- 35

Geographically net capital inflows in long-term forms are attributed wholly to the United States in 1963. Although aggregating about \$800 million, they fell well short of the current account deficit with the United States. The outflows of some two hundred million dollars to overseas countries reflected primarily continued disposal by overseas residents of Canadian securities together with the extension by Canada of export credits.

Capital inflows in short-term forms produced \$83 million, net, in contrast to the very substantial inflow of \$332 million in 1962. These capital movements together provided the financing for the current account deficit of \$521 million in 1963 and also permitted an improvement of \$146 million in Canada's official reserve position.

DIRECT INVESTMENT

The net movement of foreign capital to Canada for direct investment in foreign-controlled enterprises during 1963 is estimated to have totalled \$210 million, or about 38 per cent of the \$555 million recorded in 1962. This was a lower level than had prevailed during and since the 1950's. In the main the inflows in 1963 reflect additional investment by foreign corporations in their Canadian subsidiaries or branches, contributing to new capital formation in Canada. On balance outflows from Canada covering the repurchase of Canadian enterprises exceeded inflows for the take-over of existing concerns by non-residents. This is a reversal of the situation in recent years, particularly 1962, when net inflows for the take-over of Canadian enterprises and for refinancing etc., having no counterpart in current new capital formation in Canada, accounted for more than a quarter of the net movement. Indeed the swing in this type of transaction serves to explain half the decline in the inflow from 1962 to 1963.

Approximately one third of the net movement, or about \$75 million, occurred in the first quarter of the year while the remainder was spread evenly over the last three quarters with successive quarterly totals of \$40 million, \$50 million and \$45 million. The decrease in importance of take-overs contributed to the more even inflow of direct investment funds throughout 1963 than in the previous year. Apart from the special transactions the inflows have declined moderately in each of the last five quarters. It should be noted that the net movement of direct investment capital reflects very much larger flows in both directions. There have been sizable outward movements in recent years by companies whose operations are well established and successful. Such movements frequently do not reflect any reduction in the value of foreign investment in Canada but may merely represent the transfer of cash resources generated from current operations. To the extent that this is the case such transfers may take the place of dividends which would have appeared as a current account payment.

Petroleum and natural gas still appears to be the industry receiving the largest proportion of net direct investment inflows although at a considerably reduced rate from previous years when the influence of take-overs was more prominent. A significant development however is that for the first time in recent years the manufacturing industry appears to have supplanted mining as the second largest recipient of foreign capital. The main reason for this change was a sharp drop in net inflows for mining, but the absence in 1963 of some major outflows which reduced the net movement into manufacturing in 1962 also contributed to this result. The generation of funds internally by foreign-owned branches and subsidiaries seems to have reduced reliance on net direct investment inflows while changes in corporate structure have also been important in the petroleum industry.

Geographically, direct investment inflows from each area decreased sharply from 1962 levels, with inflows from the United States falling by about half and inflows from other areas falling by much larger proportions. As a result the proportion provided by residents of the United States rose from 64 per cent in 1962 to about 80 per cent in 1963.

Preliminary estimates of the movement of capital for direct investment abroad indicate a net outflow of \$80 million compared with \$125 million in 1962. Perhaps one third of the 1963 net outflow was for manufacturing while outflows for investment in merchandising and financial concerns each represented approximately one quarter of the total. Roughly half of the net movement appears to have been to the United Kingdom.

SECURITY TRANSACTIONS

A capital inflow of \$527 million resulted from transactions in portfolio securities between Canada and other countries during 1963. It was the largest since 1959, greatly exceeding the inflow for direct investment in foreign-controlled enterprises - usually the major type of capital inflow. By mid-year the net inflows totalled \$552 million but transactions over the latter half produced a small net outflow of \$25 million.

The main factors responsible for an increase of \$252 million in the net capital inflow over 1962 were a growth of \$246 million in new borrowings from non-residents by Canadian governments and corporations and a swing of \$90 million in capital flows from transactions in foreign securities from purchases by Canadians in 1962 to sales in 1963. These changes were tempered by an increase of \$84 million in the net repatriation of outstanding Canadian securities held abroad.

Net sales (+) or purchases (-) by Canadians	I	II	III	IV	Year
millions of dollars					
Canadian securities:					
Outstanding - Bonds ...	+ 23	+ 27	- 7	- 4	+ 39
Stocks ..	- 56	- 44	- 27	- 42	- 169
New issues	+ 411	+ 393	+ 109	+ 51	+ 964
Retirements	- 54	- 174	- 34	- 65	- 327
Foreign securities:					
Outstanding issues	+ 4	+ 21	- 4	+ 19	+ 40
New issues	- 6	- 3	- 5	- 26	- 40
Retirements	+ 5	+ 5	+ 5	+ 5	+ 20
Total - All countries	+ 327	+ 225	+ 37	- 62	+ 527
United States	+ 350	+ 264	+ 65	- 41	+ 638
United Kingdom	- 15	- 33	- 28	- 10	- 86
Other countries	- 8	- 6	-	- 11	- 25

A summary shows the composition of the transactions in 1963. The proceeds of new issues reached an unprecedented total of \$964 million. This exceeded by \$166 million the previous record set in 1957. In the four quarters ending September 30, the capital inflows in this form fell just short of \$1,300 million. These movements were dominated by two major borrowings arranged in the United States market. The first was an issue of US \$250 million placed by Government of Canada for delivery in equal instalments in the final quarter of 1962 and the first quarter of 1963. The second was an issue of US \$300 million placed by Quebec Hydro in the first quarter of 1963 of which US \$200 million had been delivered by the year-end. These and other issues contributed to wide disparities between the timing of contractual

arrangements and of resulting capital flows. In fact the sale to non-residents of new issues of Canadian securities, on a contractual timing basis, was drastically curtailed between the first and second quarters, although deliveries were little changed. Late in June the Canadian budget introduced a number of measures designed to influence the balance of payments, including a measure to relieve certain non-resident purchasers of Canadian bonds of the burden of Canadian withholding tax. The effect of this measure was nullified by the proposal to the United States Congress in early July to introduce an interest equalization tax designed to increase by about one per cent the per annum cost to most foreigners of long-term borrowing in that country. Although an intention of exempting Canadian borrowers was announced shortly thereafter, the existing uncertainty largely dominated the United States capital market as a source of long-term financing for Canada in the rest of the year.

New Issues of Canadian Bonds Sold to United States Residents

Period	Contracts	Deliveries	Undelivered*
millions of dollars			
1962 Year	960	671	312
1963 Year	714	910	116
1963 I Q	530	400	442
II Q	131	369	204
III Q	28	104	128
IV Q	25	37	116

* At end of period.

Trade in outstanding issues was dominated in 1963 by the repatriation of \$169 million Canadian common and preference stocks held abroad. Canadians on balance sold \$39 million Canadian bonds and debentures and relinquished \$40 million of foreign portfolio securities. In 1962 the net capital outflow of \$126 million resulted from net purchase balances of \$116 million for the repurchase of Canadian common and preference stocks and \$74 million for the acquisition

of foreign securities from non-residents (including \$69 million for foreign stocks), while Canadians sold on balance \$64 million of Canadian bonds, debentures and other securities.

By mid-1963 net sales of outstanding Canadian bonds and debentures had attracted about \$50 million from abroad but trade over the latter half of the year led to a repurchase balance of \$11 million.

Net repurchases of outstanding Canadian common and preference stocks held abroad continued during each quarter of 1963. The capital outflow of \$169 million for the year as a whole topped the record net capital outflow of \$116 million set in 1962. Net repurchases of \$98 million, \$54 million and \$17 million were made from residents of the United States, the United Kingdom and other overseas countries respectively. Net repurchases from the United States were very much larger than in 1962, when they first appeared in the second quarter after a long series of sales balances. The net repurchases from the United Kingdom and from other overseas countries each fell in 1963. Repurchases from these areas have been characteristic since 1960.

After net purchases of outstanding foreign securities every year since 1959, Canadians resold on balance \$40 million in equal amounts of their holdings of stocks and bonds and debentures to non-residents in 1963. Some of the proceeds appear to have been employed in the purchase of new issues.

Retirements of Canadian securities held by non-residents involved outflows of \$327 million, only slightly higher than in 1962. A large and rising volume of retirements is to be expected in the light of the substantial increasing holdings of Canadian bonds and debentures by non-residents. The series also reflect retirements of preferred stocks and special repurchases of some common stocks such as those arising from the acquisition by provincial authorities of private utility companies.

For the third successive year the United States was the sole net provider of portfolio security capital contributing \$638 million in 1963 compared with \$445 million in 1962. Net outflows of \$86 million and \$25 million to the United Kingdom and other overseas countries respectively, compared with \$91 million and \$79 million to the same countries in 1962.

Notwithstanding the absorption by non-residents of \$139 million of Government of Canada direct and guaranteed issues during 1963, \$20 million more than in 1962, their net acquisition of the net new supply of these securities fell by almost five percentage points to 18 per cent of the larger amounts raised. The net acquisitions by non-residents of provincial, municipal and corporate securities were equal to about a third of the net new supply. This was about the level which prevailed between 1956 and 1959 and about twice as high as percentages in the intervening years since.

A more extended review of international security movements in 1963 will be found in the December issue of "Sales and Purchases of Securities between Canada and Other Countries". (DBS Catalogue No. 67-002).

OTHER CAPITAL FLOWS IN LONG TERM FORMS

As in previous years Canadian Government non-military aid abroad in 1963 took the form largely of payment of the regular assessments from international agencies of which Canada is a member, official contributions and the extension or guarantee of export credits. While assessments and contributions form a part of Canada's current payments, the latter transactions, which give rise to claims on non-residents, are reflected in the capital account under item D 17.

In addition in 1963 the Government of Canada made loans totalling \$10 million to other national governments while receiving repayments of \$25 million. The new loans represented advances to India in connection with the purchase of aircraft. Re-payments dropped sharply below the \$129 million in the previous year when accelerated prepayments of principal amounting to \$91 million served to ease Canada's international financial position. The accelerated prepayments made in 1962 have had the long-term effect of reducing prematurely inflows of capital from this source.

The major repayment in 1963 was received from the United Kingdom with other amounts coming from India, Belgium and Ceylon. After the unusual transactions of 1962 which upset the seasonal variation of repayments the normal pattern is apparent again in 1963 with repayments concentrated in the second and particularly the fourth quarters of the year. In addition to these principal repayments, there were receipts of \$26 million on account of interest in 1963; these are a part of the item in the current account covering Canada's receipts of interest and dividends.

Among other movements of official capital in long-term forms was the regular subscription payment by Canada to the International Development Association of \$8 million made in the fourth quarter.

This institution was established to assist in economic development in less developed countries whose ability to make good use of capital exceeds their capacity to service loans extended on conventional terms. To date Canada has paid in to the Association about \$33 million. Not all of these funds have yet been used by the Association, and the offsetting liability appears mainly in the item for Government of Canada demand liabilities.

Composition of "Other Capital Movements"
(A minus sign indicates an outflow of capital from Canada)

Transactions with all countries	1961	1962	1963	1963			
				I Q	II Q	III Q	IV Q
millions of dollars							
Subscriptions to international investment agencies(1)	- 8	- 15	- 8	-	-	-	8
Long-term capital transactions n.i.e.	132	- 140	- 80	- 4	- 46	- 30	-
Bank balances and other short-term funds abroad (excluding official reserves)	140	94	- 252	- 59	- 80	- 136	23
Canadian commercial paper			(- 23	- 39	15	- 11	12
Canadian finance paper	100	146	(47	8	- 3	11	31
Canadian finance company obligations n.i.e.			(49	- 12	24	11	26
All other transactions including changes in loans and accounts receivable and payable(2)	148	104	248	53	126	12	57
Total (Item D 17)	512	189	- 19	- 53	36	- 143	141

(1) International Bank for Reconstruction and Development, International Development Association, and International Finance Corporation.

(2) Includes also balancing item representing difference between direct measurements of current and capital accounts.

The remaining capital movements in long-term forms led in 1963 to an outflow of \$80 million most of which occurred in the second and third quarters. In 1962 there was an outflow of \$140 million following an inflow of \$132 million from this group of transactions in 1961. The composition of these movements was somewhat more diverse in 1963 than in 1962 when about four-fifths of the total covered substantial re-payments of bank loans which were financed from the sale to non-residents of a new corporate bond issue. Apart from the effects of this transaction about half the change from 1962 to 1963 is estimated to have covered a reversal in the direction of capital flows associated with uranium, which gave rise to outflows in 1963 in contrast to the inflows which occurred in the earlier phases of the stretch-out agreements. Also contributing to the outflows have been the extension by Canada of medium and long-term export credits, repayments by Canadian corporations on foreign bank loans and the flows of capital between branches and home offices of insurance companies in Canada and abroad.

The net export credits extended by Canada directly or indirectly under guarantee or at risk of the Government of Canada, as measured for balance of payments purposes, and including both long and short term credits, amounted to about \$25 million in 1963. Although the figure is well below the totals of about \$60 million for 1962 and \$130 million for 1961 it may be noted that most of the reductions reflect substantial repayments, some of which have been made in advance of their due dates. Net capital outflows originating from these trade credits are smaller than the net credits extended because some paper is rediscounted with non-residents or into Canadian banking assets abroad, while additional amounts are financed by borrowing abroad; such types of financing are estimated to have accounted for the total in 1963 and for about two-fifths in 1962 and 1961. The net movements remaining after the above financing are included in the items of "other capital movements" appropriate to their term, contributing between \$40 and \$50 millions to the outward movement in long term forms in 1962 and 1963, and somewhat less than half this amount in 1961.

CAPITAL MOVEMENTS IN SHORT TERM FORMS Capital movements in short-term forms, apart from changes in official holdings of gold, foreign exchange and net International Monetary Fund position, led to a net inflow of \$83 million in 1963. In 1962 the comparable group of movements led to an inflow of \$332 million.

Canadian dollar deposits of non-residents rose by \$40 million in 1963 as a result of large increases in the second and fourth quarters, partially offset by decreases in the first and third quarters. About seventy per cent of the increase was in deposits of residents of the United States but it may be noted that there was a decrease nearly as large in holdings of Canadian treasury bills by residents of that country. Canadian dollar deposits of non-residents at the year end were of the order of \$520 million. These deposit liabilities included about \$320 million payable to residents of the United States, \$60 million payable to residents of the United Kingdom and about \$70 million payable to residents of Continental Europe.

Government of Canada demand liabilities payable to non-residents rose during the year by \$1 million. The amount outstanding at the year end totalled \$26 million, mainly in the form of interest free demand notes issued to international investment agencies.

Holdings by non-residents of Canadian treasury bills were reduced by \$27 million in 1963. By the end of the year the holdings had been reduced to \$39 million of which \$21 million were those of residents of the United States. More than half the remainder were obligations to international investment agencies. The year end holdings were lower than for any month-end in the past five years. At their month-end peak in April 1961 they reached \$163 million.

Sales to non-residents of Canadian treasury bills aggregated \$312 million in 1963, with repurchases and maturities totalling \$339 million. In 1962 when the volume was at peak levels, the corresponding totals were \$460 million and \$456 million. Outflows in the second and fourth quarters of 1963 were partially offset by inflows in the other quarters.

Other types of Canadian money-market instruments which were important in short-term capital movements between Canada and other countries in 1963 included Canadian commercial and finance paper. Some \$138 million of the former was reported to have been sold to non-residents, but repurchases and maturities are estimated to have totalled \$161 million, giving rise to a net capital outflow of \$23 million. Transactions in Canadian finance paper, on the other hand, gave rise to an inflow of \$47 million reflecting gross sales to non-residents of \$340 million and repurchases and maturities totalling \$293 million. Additionally Canadian finance companies borrowed some \$49 million in forms not shown elsewhere in the balance of payments. A related form of capital movement (which is not shown separately in the tables) was the net sale to non-residents on a buy-back basis of about \$9 million of Government of Canada obligations of an original term of over one year. The volume of such transactions was of the order of \$40 million in 1963 in contrast to 1962 when it exceeded \$350 million.

Capital movements of a money market character are determined primarily by short-term interest rates. Money market instruments vary as to term, currency, credit risk, etc, while the lenders vary also in character, requirements and relationships. A wide variety of interest differentials may, therefore, be appropriate to a consideration of the capital flows, but treasury bill yields in Canada and in the United States may serve as a bell-wether.

Yields on 91-day Canadian treasury bills were at their highest in the early part of the year as they continued their descent from the very high level of 5.51 per cent per annum established on July 19, 1962. By January 3, 1963 the yield was 3.94 per cent and it trended downward to 3.19 per cent on May 30 and again on June 13. Consonant with later developments, to some of which reference has already been made, the yield then rose, reaching 3.78 per cent on September 12. With the announcement of major wheat export contracts yields showed some tendency to decline until mid-October but by the end of the year they had regained the level of mid-September. The range through the year was three-quarters of one per cent. In contrast to the situation in Canada where yields were at their highest at the beginning of the year, yields on 3-month treasury bills of the United States were at their lowest point. From 2.83 per cent yields tended to rise through the year, reaching 3.52 per cent in November and closing the year near that figure. The differential in favour of Canadian bills, without allowance for the cost of exchange protection, was at its high of 1.11 per cent at the beginning of the year, nearly disappearing in October and then rising to 0.27 per cent at the year-end.

The cost of forward exchange cover for United States dollars ranged between one half and one per cent in the first four months of the year but then declined to negligible proportions except for a period in the summer. The protected differential exceeded one-half of one per cent only briefly in January and April. Theoretically movements of interest arbitrage capital should continue to a point where the cost of exchange protection offsets any remaining interest differential. In practice nominal differentials are often too narrow to motivate transactions. Moreover, not all purchases by non-residents of Canadian money market instruments are hedged by forward exchange contracts. Some investors may choose to accept the risk of exchange rate fluctuations; others may have an ultimate use for the currency and may therefore not be concerned with the repatriation of maturities.

The bank balances and other short-term funds held abroad by Canadian residents increased during 1963 leading to a net capital outflow of \$252 million. This movement is in accordance with the trend since World War II which was reversed in 1961 and 1962 by capital inflows of \$140 million and \$94 million respectively. Holdings of these assets in 1963 advanced to a record year-end total of about \$1.3 billion. There were wide fluctuations in movements throughout 1963 with capital outflows rising steeply up to the end of the third quarter when a reversal occurred resulting in a small inflow of \$23 million.

Apart from the items specified, the final category "all other transactions including changes in loans and accounts receivable and payable" also covers flows in the short-term element of export credits and includes the balancing item representing the difference between direct measurements of the current and capital accounts. The net balance for these items in 1963 was an inflow of \$248 million, half of which was concentrated in the second quarter with the remainder largely split between the first and fourth quarters of the year.

Official Holdings of Gold and Foreign Exchange

Canada's external reserves rose by a smaller amount in 1963 than in either 1961 or 1962. Official holdings of gold and foreign exchange increased by \$60 million and Canada's net International Monetary Fund position by \$86 million.

United States Dollar in Canada

Period	High	Low	Close	Noon average
Canadian cents				
1962 IV Q	107.81	107.53	107.72	107.63
1963 I Q	107.94	107.59	107.81	107.76
II Q	107.97	107.59	107.81	107.74
III Q	108.57	107.63	107.78	108.08
IV Q	108.09	107.72	108.06	107.83

Most of Canada's official holdings of gold and foreign exchange take the form of gold and United States funds. Expressed in terms of United States dollars, these holdings rose from \$2,539 million at the end of 1962 to \$2,595 million at the end of 1963. The peak month-end was May when holdings totalled \$2,712 million. A sharp drop from \$2,692 million to \$2,501 million occurred in July. In that month Canada made a partial repayment of nearly \$80 million to the International Monetary Fund, but the greater part of the decline occurred in a short period following the Presidential proposal to the United States Congress for the imposition of the "Interest Equalization Tax" and prior to the

announcement that Canadian new issues were to be exempted. Later in the third quarter major contracts for the sale of Canadian wheat were announced, and by the end of the quarter official holdings of gold and foreign exchange were rising rapidly.

On a quarterly basis, and expressed in Canadian funds, official holdings of gold and foreign exchange rose by \$66 million and \$111 million in the first and second quarters respectively, fell by \$145 million in the third quarter, and rose by \$28 million in the final quarter of the year. Off-setting part of the decline in the third quarter was an increase of \$86 million in Canada's net position in the International Monetary Fund. Details of those transactions were given in the report for the third quarter.

Official Holdings of Gold and United States Dollars, and Related Items

End of period		Official holdings of Gold and United States Dollars	Net International Monetary Fund Position	Other Special International Financial Assistance(1)	Total of Foregoing Items
millions of United States dollars					
1962	I Q	1,709	202	-	1,911
	II Q	1,809	- 138	- 350	1,321
	III Q	2,445	- 138	- 350	1,957
	IV Q	2,539	- 138	-	2,401
1963	I Q	2,600	- 138	-	2,462
	II Q	2,692	- 138	-	2,554
	III Q	2,568	- 58	-	2,510
	IV Q	2,595	- 58	-	2,537
	October	2,581	- 58	-	2,523
	November	2,631	- 58	-	2,573
	December	2,595	- 58	-	2,537

(1) A minus sign (-) indicates assistance to Canada.

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Note: Data for 1962 are preliminary and data for 1961 are subject to revision
1963

No.		1961	1962		
		IV	I	II	III
			millions of dollars		
A	Current receipts:				
1	Merchandise exports (adjusted).....	1,619	1,395	1,620	1,628
3	Gold production available for export.....	38	43	42	39
4	Travel expenditures.....	85	46	126	294
5	Interest and dividends.....	74	33	52	44
6	Freight and shipping.....	129	104	128	133
7	Inheritances and immigrants' funds.....	25	20	31	42
11	All other current receipts.....	98	107	104	108
12	Total current receipts	2,068	1,748	2,103	2,288
B	Current payments:				
1	Merchandise imports (adjusted).....	1,559	1,402	1,665	1,559
4	Travel expenditures.....	125	130	178	200
5	Interest and dividends.....	222	179	205	163
6	Freight and shipping.....	159	125	153	158
7	Inheritances and emigrants' funds.....	47	34	40	44
9	Official contributions.....	20	7	12	5
11	All other current payments.....	208	204	212	193
12	Total current payments	2,340	2,081	2,465	2,322
	Balance on merchandise trade.....	+ 60	- 7	- 45	+ 69
	Balance on other transactions, excluding B9.....	- 312	- 319	- 305	- 98
	Official contributions.....	- 20	- 7	- 12	- 5
C	Current account balance	- 272	- 333	- 362	- 34
D	Capital account:				
	Direct investment:				
1	Direct investment in Canada.....	+ 106	+ 114	+ 87	+ 147
2	Direct investment abroad.....	- 17	- 29	- 31	- 25
	Canadian securities:				
3 a	Trade in outstanding bonds and debentures.....	+ 9	- 3	+ 4	+ 39
3 b	Trade in outstanding common and preference stocks.....	- 5	- 14	- 44	- 26
4	New issues.....	+ 118	+ 53	+ 194	+ 85
5	Retirements.....	- 106	- 72	- 71	- 53
6,7,8	Foreign securities.....	- 15	- 26	- 34	- 7
	Loans by Government of Canada:				
9	Drawings.....	-	-	-	- 7
10	Repayments.....	+ 27	+ 3	+ 7	+ 68
	Change in Canadian dollar holdings of foreigners:				
14 a	Deposits.....	+ 35	- 45	- 13	- 46
14 b	Government of Canada demand liabilities.....	- 2	- 3	- 2	- 3
14 c	Canadian treasury bills.....	+ 18	+ 18	+ 50	- 3
17	Other capital movements.....	+ 239	- 37	- 419	+ 551
E	Net capital movement, exclusive of change in official holdings of gold and foreign exchange	+ 407	- 41	- 272	+ 720
H	Official holdings of gold and foreign exchange:				
1	Change in holdings.....	+ 135	- 364	+ 114	+ 686
2	Net International Monetary Fund position.....	-	- 10	- 367	-
3	Other special international financial assistance.....	-	-	- 381	-

Notes: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in B 1) the annual reports on "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, B 11) insurance transactions, and business services.

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Note: Data for ¹⁹⁶²1963 are preliminary and data for 1961 are subject to revision

1962	1 9 6 3				Annual Totals				
IV	I	II	III	IV	1960	1961	1962	1963	No.
millions of dollars									
1,721	1,482	1,772	1,801	2,009	5,392	5,889	6,364	7,064	A
41	45	41	38	42	162	162	165	166	1
94	50	132	320	100	420	482	560	602	3
82	43	56	43	86	173	209	211	228	4
133	114	139	143	154	442	486	498	550	5
31	27	38	48	36	102	103	124	149	6
107	110	111	112	111	419	403	426	444	7
2,209	1,871	2,289	2,505	2,538	7,110	7,734	8,348	9,203	11
									12
1,583	1,412	1,700	1,657	1,811	5,540	5,716	6,209	6,580	B
102	117	158	207	107	627	642	610	589	1
234	196	192	181	273	653	770	781	842	4
152	125	160	175	175	533	568	588	635	5
45	38	42	49	53	181	174	163	182	6
8	15	17	15	14	61	56	32	61	7
204	206	209	207	213	758	790	813	835	9
2,328	2,109	2,478	2,491	2,646	8,353	8,716	9,196	9,724	11
									12
+ 138	+ 70	+ 72	+ 144	+ 198	- 148	+ 173	+ 155	+ 484	
- 249	- 293	- 244	- 115	- 292	-1,034	-1,099	- 971	- 944	
- 8	- 15	- 17	- 15	- 14	- 61	- 56	- 32	- 61	
- 119	- 238	- 189	+ 14	- 108	-1,243	- 982	- 848	- 521	C
									D
+ 207	+ 75	+ 40	+ 50	+ 45	+ 650	+ 520	+ 555	+ 210	1
- 40	- 25	- 25	- 15	- 15	- 50	- 75	- 125	- 80	2
+ 24	+ 23	+ 27	- 7	- 4	+ 3	+ 61	+ 64	+ 39	3 a
- 32	- 56	- 44	- 27	- 42	+ 51	+ 39	- 116	- 169	3 b
+ 386	+ 411	+ 393	+ 109	+ 51	+ 447	+ 538	+ 718	+ 964	4
- 125	- 54	- 174	- 34	- 65	- 265	- 300	- 321	- 327	5
- 3	+ 3	+ 23	- 4	- 2	- 19	- 34	- 70	+ 20	6,7,8
-	-	-	- 8	- 2	-	-	- 7	- 10	9
+ 51	-	+ 6	-	+ 19	+ 32	+ 37	+ 129	+ 25	10
+ 92	- 29	+ 38	- 12	+ 43	+ 79	+ 34	- 12	+ 40	14 a
+ 4	-	- 3	- 1	+ 5	- 12	- 2	- 4	+ 1	14 b
- 61	+ 9	- 17	+ 19	- 38	+ 56	- 58	+ 4	- 27	14 c
+ 94	- 53	+ 36	- 143	+ 141	+ 232	+ 512	+ 189	- 19	17
+ 597	+ 304	+ 300	- 73	+ 136	+1,204	+1,272	+1,004	+ 667	E
									H
+ 101	+ 66	+ 111	- 145	+ 28	- 39	+ 229	+ 537	+ 60	1
-	-	-	+ 86	-	-	+ 61	- 377	+ 86	2
+ 377	-	-	-	-	-	-	- 4	-	3

Notes: D A minus sign indicates an outflow of capital from Canada.

D 1,2 Exclusive of undistributed profits.

D 17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.

H 3 A minus sign indicates a receipt by Canada.

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**QUARTERLY ESTIMATES OF THE CANADIAN
BALANCE OF INTERNATIONAL PAYMENTS
FIRST QUARTER 1964**

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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FIRST QUARTER 1964

In the first quarter of 1964 there was a rise in the deficit from Canada's current transactions in goods and services with other countries. Some part of this rise is connected with irregular or non-recurring transactions and with the timing of adjustments to the Trade of Canada series, which all had the effect of enlarging the deficit in this period. These special elements in the background are referred to in the descriptions of the behaviour of various items which follow. At the same time underlying demands were strong with evidence of this in rising levels of both exports and imports and higher economic activity in Canada and in various countries abroad.

Summary statement

	1962	1963	1963				1964
			I Q	II Q	III Q	IV Q	I Q
	millions of dollars						
Merchandise trade balance	+ 155	+ 484	+ 70	+ 72	+ 144	+ 198	+ 44
Deficit on non-merchandise transactions	- 1,003	- 1,005	- 308	- 261	- 130	- 306	- 385
Current account balance	- 848	- 521	- 238	- 189	+ 14	- 108	- 341
Capital movements(1)	+ 1,004	+ 667	+ 304	+ 300	- 73	+ 136	+ 299
Long-term forms	+ 672	+ 584	+ 373	+ 200	+ 34	- 23	+ 58
Short-term forms	+ 332	+ 83	- 69	+ 100	- 107	+ 159	+ 241
Change in official exchange holdings(2)	+ 156	+ 146	+ 66	+ 111	- 59	+ 28	- 42

(1) Excluding change in official exchange holdings.

(2) Gold, foreign exchange, and net International Monetary Fund position, less special international financial assistance.

A reduced export balance on merchandise trade

At \$341 million, Canada's deficit in the first quarter of 1964 on transactions with other countries in current goods and services was \$103 million, or over 40 per cent, higher than the imbalance of \$238 million in the same period of 1963. The most recent deficit was however about the same order of magnitude as that for the March quarters for the three earlier years 1960 to 1962. Only a quarter of the increase in the imbalance between the opening quarters of 1963 and 1964 was attributable to merchandise trade, where the surplus after adjustment of the components for balance of payments purpose declined from \$70 million to \$44 million. This reduction was derived from a larger increase in imports than in exports. The deficit on non-merchandise transactions widened 25 per cent from \$308 million to the record level of \$385 million.

A regular adjustment with a view to a more precise timing of wheat shipments and a special adjustment to reduce export values of military aircraft, for which progress payments had been credited to exports in 1963, dampened the increase in the adjusted exports significantly. The effect of the adjustments was to reduce sharply the export balance as shown by the regular statistics on the Trade of Canada. After adjustment, merchandise exports gained \$245 million or more than 16 per cent from \$1,482 million to \$1,727 million. Imports were up \$271 million, or about 19 per cent, from \$1,412 million to \$1,683 million in the first quarter of 1964.

Clearances of wheat and flour together increased about \$50 million; iron ore and semi-fabricated steel \$25 million; non-ferrous metals over \$35 million; and lumber, pulp, newsprint and related products nearly \$45 million. Less sizable gains of about \$10 million each occurred in the cases of tobacco, railway rolling stock, non-agricultural machinery and aircraft (after taking progress payments into account). More moderate increases were also recorded in exports of commodities such as petroleum and natural gas, asbestos and motor vehicle parts. Uranium shipments fell \$16 million.

Progress payments on submarines being built in the United Kingdom for the Royal Canadian Navy augmented the rise indicated in import trade totals between the first quarters of 1963 and 1964. While commodity details are not yet available for imports for the first quarter of 1964, it is likely that the increase was distributed over industrial materials, investment goods and consumer goods as in preceding months.

A larger deficit on services and other non-merchandise items

Several major items contributed in varying degrees to the expansion of \$77 million to \$385 million in net payments on non-merchandise transactions in the March quarter of 1964. Substantial

Major Items in the Balance on Non-Merchandise Transactions

	First three months			Change in 1964
	1962	1963	1964	
millions of dollars				
Gold production available				
for export	+ 43	+ 45	+ 36	- 9
Travel	- 84	- 67	- 96	- 29
Interest and dividends ...	- 146	- 153	- 184	- 31
Freight and shipping	- 21	- 11	- 4	+ 7
Inheritances and migrants' funds	- 14	- 11	- 9	+ 2
Official contributions ...	- 7	- 15	- 12	+ 3
All other current transac- tions	- 97	- 96	- 116	- 20
Balance on non-merchandise transactions	- 326	- 308	- 385	- 77

Travel Expenditures

	First three months			Change in 1964
	1962	1963	1964	
millions of dollars				
United States:				
Receipts	42	45	53	+ 8
Payments	92	80	113	+ 33
Balance	- 50	- 35	- 60	- 25
Overseas:				
Receipts	4	5	6	+ 1
Payments	38	37	42	+ 5
Balance	- 34	- 32	- 36	- 4
All countries:				
Receipts	46	50	59	+ 9
Payments	130	117	155	+ 38
Balance	- 84	- 67	- 96	- 29

increases in the deficit on travel, interest and dividends accounted for more than three-quarters of the deficit rise. The remainder of the increase originated in "all other current transactions" and in the gold item,

An increase in payments over four times as large as in receipts pushed the travel deficit up to \$96 million from \$67 million in the first quarter of 1963, which compared with the average deficit of around \$86 million for the quarter in the three preceding years 1960 to 1962. Almost all of the \$9 million rise in travel receipts to \$59 million was attributable to expenditures of United States travellers in Canada. Similarly in payments, Canadians travelling in the United States accounted for over 85 per cent of the \$38 million rise in travel payments. This sharp increase might have arisen from the prosperous situation prevalent among people who are accustomed to winter travel and an extension in this group, the earlier incidence of Easter in March, and Canadian travellers having become more adjusted to the exchange rate established in May 1962. Nearly 60 per cent of the increase originated from a larger number of Canadians travelling by automobile, whose average expenditures in the United States were much higher in the first quarter of 1964. Canadians using other modes of locomotion accounted for the remainder of the increase, and their numbers were higher as were their per capita expenditures. Canadian spending on travel in overseas areas continued to grow, by more than 10 per cent in an over-the-year comparison of March quarters.

A 20 per cent rise from \$153 million to \$184 million in the deficit on interest and dividend account was

derived from an increase of \$36 million, or 18 per cent, to \$232 million in the payments, offset by a much smaller rise of \$5 million in the receipts to \$48 million. Both the totals of receipts and payments were the highest on record for the first quarter of the year. At almost 48 per cent, the proportion of all non-merchandise deficit accounted for by net payments of interest and dividends was however slightly lower than in the first quarter of 1961, which was unique for the sizable carryover of dividends from the last quarter of 1960. Affecting this percentage share in the latest quarter under review were also extraordinary payments on government account, reference to which will be found in this report.

Interest and Dividends: Payments

Period		Total	Interest	Dividends
		millions of dollars		
1961		770	259	511
1962		781	285	496
1963		842	317	525
1962	I Q	179	67	112
	II Q	205	76	129
	III Q	163	62	101
	IV Q	234	80	154
1963	I Q	196	70	126
	II Q	192	89	103
	III Q	181	70	111
	IV Q	273	88	185
1964	I Q	232	78	154

The \$5 million increase in receipts to \$48 million was distributed about evenly between interest and dividends. On the payments side, interest rose 11 per cent from \$70 million to \$78 million, while dividends went up 22 per cent from \$126 million to \$154 million. The increase in interest payments was due almost entirely to the sales abroad in the relevant quarters of 1963 of new bonds of the provincial governments. As increments to dividend payments on portfolio investment and to net profits of unincorporated branches in Canada were slight, the bulk of the rise covered payments of dividends on direct investment; and the small number of subsidiaries contributing to

the increase in the first quarter of 1964 have tended to irregular dividend payments.

With the growth in the volume of trade, both receipts and payments for freight and shipping transactions increased, the former more than the latter; and net payments accordingly declined from \$11 million to \$4 million. A major part of the rise in receipts from \$114 million to \$134 million was for inland freight in Canada on commodities destined for export abroad. Ocean freight and also inland freight in the United States on imports of goods contributed to increased payments. A slightly larger increase in receipts than in payments of migrants' funds and inheritances reduced the deficit slightly to \$9 million. The value of gold production available for export of \$36 million was down 20 per cent from \$45 million in the first quarter of 1963, and mainly reflected declining production.

Among other non-merchandise transactions, official contributions at \$12 million were slightly below \$15 million in the same quarter last year, but net payments on other government transactions were up considerably as were those covering miscellaneous income. The settlement with allied authorities of Canada's share of the cost of the Commonwealth defence operations in Korea and also of refitting costs for submarines represented a large portion of the higher government expenditures abroad. Among miscellaneous income items, transfers of the earnings of financial institutions were estimated to be lower. While net payments for business services expanded slightly, they accounted for over one-half of the deficit on "all other current transactions" in the first quarter of 1964.

Transactions by areas

The widening in Canada's current account balance took place wholly in transactions with the United States, the deficit rising \$196 million, or 56 per cent, from \$347 million to \$543 million in the March quarter of 1964. This deterioration was however offset in part by the continuing improvement in the surplus with overseas countries, which almost doubled from \$109 million to \$202 million.

Total receipts on current goods and services from the United States advanced 6 per cent from \$1,155 million to \$1,226 million, while total payments increased 18 per cent from \$1,502 million to \$1,769 million. More than 60 per cent of the expansion in the deficit with the United States was attributable to merchandise trade, with exports gaining over 7 per cent from \$885 million to \$950 million and imports rising more than 18 per cent from \$1,030 million to \$1,219 million. Heavier shipments to the United States included lumber, wood pulp, newsprint, crude petroleum and natural gas, iron ore, aluminum, copper, semi-fabricated steel, agricultural machinery and automobiles and parts. Exports of uranium declined.

Quarterly Current Account Balances

	I Q	II Q	III Q	IV Q
	millions of dollars			
United States:				
1961	- 433	- 435	- 151	- 367
1962	- 343	- 425	- 66	- 282
1963	- 347	- 337	- 64	- 410
1964	- 543			
United Kingdom:				
1961	+ 39	+ 27	+ 42	+ 79
1962	+ 6	+ 48	+ 49	+ 110
1963	+ 74	+ 115	+ 88	+ 117
1964	+ 80			
Other countries:				
1961	+ 57	+ 97	+ 47	+ 16
1962	+ 4	+ 15	- 17	+ 53
1963	+ 35	+ 33	- 10	+ 185
1964	+ 122			

A nominal advance in receipts on non-merchandise transactions from \$270 million to \$276 million against a more than 16 per cent increase in payments from \$472 million to \$550 million brought about the \$72 increment to the deficit on "invisibles" with the United States. About seven-eighths of this expansion originated from more adverse balances on interest, dividends and travel accounts together with the lower value of gold production available for export. References were made to these developments in the earlier discussion on non-merchandise transactions as well as to the reduced transfers to Canada of earnings of financial institutions.

In continuation since the second quarter of 1962 of the over-the-year increases, the surplus in current transactions with the United Kingdom widened moderately from \$74 million to \$80 million in the first quarter of 1964. This gain was the net effect of a rise in the export balance from \$110 million to \$128 million, offset by a smaller increase in the non-

merchandise deficit from \$36 million to \$48 million. Larger shipments of wheat flour, metals and minerals, including nickel, copper, zinc and uranium, lumber, synthetic rubber and plastics contributed to a gain of nearly 25 per cent from \$213 million to \$265 million in merchandise exports. Smaller exports were seen in the cases of oilseed cake, newsprint, aluminum and precious metals. The \$12 million increase in non-merchandise deficit was mainly attributable to the two rather extraordinary payments on government account referred to indirectly before, as changes to the balances of other accounts were more moderate and offsetting.

Summary of Current Transactions with the United States, United Kingdom and Other Countries
First Quarter 1963 and 1964, and Change Between the Periods

	1963	1964	Change	1963	1964	Change
	millions of dollars					
	All countries			United States		
Merchandise exports (adjusted)	1,482	1,727	+ 245	885	950	+ 65
Merchandise imports (adjusted)	1,412	1,683	+ 271	1,030	1,219	+ 189
Balance on Merchandise trade	+ 70	+ 44	- 26	- 145	- 269	- 124
Other current receipts	389	416	+ 27	270	276	+ 6
Other current payments	697	801	+ 104	472	550	+ 78
Balance on non-merchandise transactions	- 308	- 385	- 77	- 202	- 274	- 72
Total receipts	1,871	2,143	+ 272	1,155	1,226	+ 71
Total payments	2,109	2,484	+ 375	1,502	1,769	+ 267
Current account balance	- 238	- 341	- 103	- 347	- 543	- 196
	United Kingdom			Other countries		
Merchandise exports (adjusted)	213	265	+ 52	384	512	+ 128
Merchandise imports (adjusted)	103	137	+ 34	279	327	+ 48
Balance on merchandise trade	+ 110	+ 128	+ 18	+ 105	+ 185	+ 80
Other current receipts	51	61	+ 10	68	79	+ 11
Other current payments	87	109	+ 22	138	142	+ 4
Balance on non-merchandise transactions	- 36	- 48	- 12	- 70	- 63	- 7
Total receipts	264	326	+ 62	452	591	+ 139
Total payments	190	246	+ 56	417	469	+ 52
Current account balance	+ 74	+ 80	+ 6	+ 35	+ 122	+ 87

In transactions with other overseas countries, the chain of improvements in the current account balance since the final quarter of 1962 was extended with an advance of \$87 million from \$35 million to \$122 million in the first quarter of 1964. More than 90 per cent of this latest gain occurred in merchandise trade, with the surplus widening from \$105 million to \$185 million. Merchandise exports increased a third from \$384 million to \$512 million, while merchandise imports rose about one-sixth from \$279 million to \$327 million. Nearly seven-eighths of the improvement in the merchandise surplus within this group occurred in Canada's trade with countries other than those in the Sterling or OECD groups. Almost three-quarters and over one-half of the increases in exports and in imports respectively were recorded in trade with "other countries". Higher clearances of wheat to the Soviet group of countries, in particular to the U.S.S.R. itself, and to Cuba were featured prominently in the enlarged exports. Wheat shipments to Mainland China in the quarter were however substantially lower. Larger exports of industrial materials to Japan and locomotives to Latin America were other elements in the rise.

Capital Movements

Capital movements in long-term forms turned inwards again in the first quarter of 1964. The inflow of \$58 million compared with an outflow of \$23 million in the preceding quarter. If the series is adjusted to reflect the timing of sales of new issues of Canadian bonds and debentures rather than their delivery there was an inflow in long-term forms of \$12 million in the first quarter following outflows aggregating \$106 million in the preceding three quarters.

Movements in short-term forms led to an inflow of \$241 million. This was the largest quarterly inflow in these forms since the third quarter of 1962 when there was a dramatic reflux of capital which had fled Canada in the earlier exchange crisis.

Together these capital inflows amounted in the first quarter to \$299 million. The current account deficit in this period was \$341 million and Canada's official holdings of gold and foreign exchange and net International Monetary Fund position, together were reduced by \$42 million.

Summary	1962				1963				1964	
	I Q	II Q	III Q	IV Q	I Q	II Q	III Q	IV Q	I Q	
millions of dollars										
Capital movements in long-term forms ...	+ 5	- 29	+ 238	+ 458	+ 373	+ 200	+ 34	- 23	+ 58	
Capital movements in short-term forms(1)	- 46	- 243	+ 482	+ 139	- 69	+ 100	- 107	+ 159	+ 241	
Balance on goods and services	- 333	- 362	- 34	- 119	- 238	- 189	+ 14	- 108	- 341	
Change in official holdings of gold, foreign exchange, and net Inter- national Monetary Fund position, less special international fi- nancial assistance	- 374	- 634	+ 686	+ 478	+ 66	+ 111	- 59	+ 28	- 42	

(1) Excluding items in final line.

The geographical distribution of Canada's current account balance and capital movements in long-term forms (referred to by some as the "basic" balance) is given in a statement. It indicates that Canada incurred a deficit of \$543 million on current account with the United States and received \$122 million net of capital in long-term forms from that country. The remainder of \$421 million to be financed from other sources was more than in the whole of 1963, and represented a very substantial change from the first quarter of that year. (If the production of new gold available for export, which is conventionally attributed to the United States, is abstracted, the balance exceeds \$450 million.) Capital inflows from the United States in short-term forms amounted to somewhat less than \$225 million in the quarter, and the balance of the funds needed were derived from transactions with other countries and from the reduction in Canada's official reserves. In this quarter the transactions of Canada thus

Capital Inflows in Long-Term Forms

Period	Actual Inflow	Adjusted to reflect timing of security contracts
	millions of dollars	
1962 First quarter	+ 5	+ 107
Second "	- 29	- 140
Third "	+ 238	+ 528
Fourth "	+ 458	+ 460
1963 First quarter	+ 373	+ 504
Second "	+ 200	- 32
Third "	+ 34	- 42
Fourth "	- 23	- 32
1964 First quarter	+ 58	+ 12

contributed substantially to the strengthening of the United States balance of payments, both through reductions in Canada's private and official exchange holdings in that country and through the use there of Canadian earnings elsewhere in the world. Underlying these were Canada's widened deficit for the purchase of goods and services from the United States.

With the United Kingdom and other overseas countries Canada experienced a current account surplus of \$202 million. Capital outflows in long-term forms to these countries aggregated \$64 million in the quarter leaving a surplus from these types of transactions of \$138 million. There was a further capital inflow from these countries of about \$25 million in short-term forms, and these amounts were available for application in Canada's balance of payments with the United States.

Area Distribution of Current Account Balance and Capital Movements in Long-Term Forms

	Current account balance(1)	Capital movements in long-term forms	Total of foregoing items	Total of foregoing items excluding gold production available for export
	millions of dollars			
United States:				
1961	- 1,386	931	- 455	- 617
1962	- 1,116	669	- 447	- 612
1963	- 1,158	800	- 358	- 524
1963	I - 347	388	41	- 4
	II - 337	260	- 77	- 118
	III - 64	121	57	+ 19
	IV - 410	31	- 379	- 421
1964	I - 543	122	- 421	- 457
United Kingdom and other overseas countries:				
1961	404	- 21	383	383
1962	268	3	271	271
1963	637	- 216	421	421
1963	I 109	- 15	94	94
	II 148	- 60	88	88
	III 78	- 87	- 9	- 9
	IV 302	- 54	248	248
1964	I 202	- 64	138	138

(1) Including gold production available for export.

DIRECT INVESTMENT

The net inflow of foreign capital for direct investment in foreign-controlled enterprises in Canada is estimated to have totalled \$75 million in the first quarter. At this level the inward movement was up sharply from the preceding quarter's total of \$45 million but was of the same magnitude as the corresponding period in 1963. A widely publicized take-over of a long established Canadian enterprise contributed to the inflow, but there were a number of repatriations on a smaller scale which offset much of the major inflow. The bulk of the inflow came from the United States with the United Kingdom and other overseas countries together providing approximately \$10 million.

Investment was concentrated about equally in the petroleum and natural gas, mining and manufacturing industries while the repatriation of a large block of shares in a financial institution accounted entirely for the outflow in this category. There were only negligible investments on balance in other industries. The inflows for mining were largely for investment in iron ore and potash deposits while the largest single transaction, which accounted for over half the total net inflow, was for the takeover of a brewing company.

The net outflow of Canadian capital for direct investment abroad is estimated at \$30 million, which is double the level of the preceding quarter. Four fifths of the total was for investment in manufacturing in the United Kingdom with the rest going equally to other overseas countries and the United States.

SECURITY TRANSACTIONS The capital inflow to Canada from all transactions in bonds and stocks amounted to \$32 million in the first quarter of 1964. In the preceding quarter there was an outflow of \$62 million. It will be recalled that inflows in late 1962 and early 1963, arising on balance entirely from the United States, reached very large totals. After the first quarter of 1963 sales contracted sharply, although funds continued to flow into Canada as the result of earlier contracts. Since July 1963 tax measures before the United States Congress to reduce long term borrowing in that country have been an effective deterrent. Apart from deliveries under contracts entered into prior to the middle of 1963 transactions in bonds and stocks have led to capital outflows from Canada each quarter since that time.

In the first quarter of 1964 receipts from non-residents from the sale of new issues aggregated \$155 million (including deliveries of \$62 million contracted earlier but excluding \$16 million sold for later delivery). Net repurchases by Canadians of outstanding Canadian securities totalled \$57 million, virtually all stocks; this repatriation was influenced by some special situations. Retirements of foreign held issues amounted to \$61 million. The net inflow of \$37 million from these transactions in Canadian issues was offset to the extent of \$5 million by capital outflows in connection with transactions in foreign securities.

New Issues of Canadian Bonds Sold to
United States Residents

Period		Contracts	Deliveries	Undelivered(1)
millions of dollars				
1962	Year	954	671	306
1963	Year	724	910	120
1963	I Q	531	400	437
	II Q	137	369	205
	III Q	28	104	129
	IV Q	28	37	120
1964	I Q	98	144	74

(1) At end of period.

suggest that a substantial increase has occurred in the supply of Canadian savings seeking portfolio investments in equities. However, as the accompanying statement shows, the increasing repurchases from non-residents have occurred in a period when net new issues of Canadian equities were decreasing or were negative. This reflected in part the acquisition by provincial governments of private hydro electric companies, involving withdrawals from private investors of some \$488 million of equities in the four quarters ending March 31, 1964 (including conversion of \$53 million into bonds), and of \$87 million in the preceding six quarters. These transactions releasing large amounts of private savings invested in equities undoubtedly played a role in the absorption of the issues coming on to the Canadian market from non-residents. Moreover there have been substantial shifts of stock from portfolio investors in Canada to controlling interests of Canadian and foreign origin. These effectively removed from the market at least a third of the apparent investment by Canadians in the ten quarters ending 31 March 1964. The transactions were largely concentrated in the earlier part of the period when the acquisition from the public of oil, merchandising, and mining stocks played a prominent role in direct investment inflows. It may also be noted that a significant amount of the financing needed by the provincial authorities was raised outside Canada through new issues of bonds.

In the thirty months from the fourth quarter of 1961 to the first quarter of 1964 inclusive, international transactions have involved capital outflows for the repatriation to Canada of \$492 million of Canadian common and preference stocks. The preceding thirty months saw inflows aggregating \$223 million and earlier, in 1956, the inflow in the single calendar year was over \$250 million. These figures emphasize the dramatic shift which has occurred in the direction of flows of capital for portfolio investment in Canadian equities.

Both the change and the scale of recent repatriations might

Canadian Common and Preference Stocks

Period	Net acquisition from non-residents(+)	Net new issues		Net investment by private sector in Canada
		Acquisitions by provincial authorities(-)	Other	
		millions of dollars		
Year 1956	- 253	-	689	436
Ten quarters ending 31 March 1964	492	- 575	747	664
Six quarters ending 31 March 1963	232	- 87	445	590
Four quarters ending 31 March 1964	260	- 488	302	74

OTHER CAPITAL FLOWS IN LONG-TERM FORMS

In the first quarter of 1964 the Government of Canada made further advances totalling \$2 million on its loan to India for the purchase of aircraft. Receipts were approximately double this amount at \$4 million and were mainly partial repayments from India of a loan for the purchase of wheat.

The remaining capital movements in long-term forms led to an outflow of \$21 million. There were large movements with the United States in both directions mainly in connection with bank loans which resulted in a net inflow of \$9 million. This was offset by net outflows of \$3 million and \$27 million recorded with the United Kingdom and other overseas countries respectively. The net movement to other overseas countries was entirely due to loans and advances under Government programmes for the financing of Canadian exports.

CAPITAL MOVEMENTS IN SHORT-TERM FORMS

Canadian dollar holdings of foreigners increased by \$23 million in the first quarter of 1964. The Italian drawing of Canadian dollars from the International Monetary Fund, commented upon later, contributed to this increase. Foreign holdings of Canadian treasury bills rose by \$4 million while holdings of Government of Canada demand liabilities remained unchanged.

The largest capital movement shown separately in the supplementary statement covering "other capital movements" was a short-term inflow of \$142 million representing a reduction by residents in bank balances and other short-term funds abroad (excluding official reserves) from the record year-end total of about \$3 billion at the end of 1963. In addition an inflow of \$115 million resulting from transactions in Canadian commercial paper, Canadian finance paper and other finance company obligations. Half of this latter inflow was accounted for by the unusually high net sales balance for Canadian finance paper. Holdings by non-residents of Canadian commercial and finance paper are believed to have been of the order of \$325 million at the end of the quarter.

In a recent public address(1) the Governor of the Bank of Canada commented on the relationship of wheat sales and inflows of short-term capital into Canada: "... our foreign exchange position has been bolstered both by the payment for wheat shipped and by the demand for forward Canadian dollars to cover future shipments. The demand for Canadian dollars in the forward market has caused a substantial inflow of short-term capital into Canada, a flow which is in effect a prepayment for wheat. During the last several months we have on occasion fended off further short-term inflows, in part by operating in the forward exchange market in order to moderate any tendency of the covered interest-rate differential to widen sufficiently to induce this type of inflow."

(1) Before the U.S. Bankers' Association for Foreign Trade, Quebec City, May 25, 1964.

All other capital movements gave rise to a capital outflow of \$39 million. Repayments of bank loans were an important element in this figure.

Composition of "Other Capital Movements"
(A minus sign indicates an outflow of capital from Canada)

Transactions with all countries	1963				1964
	I Q	II Q	III Q	IV Q	I Q
millions of dollars					
Subscriptions to international investment agencies(1)	-	-	-	8	-
Long-term capital transactions n.i.e.	- 4	- 46	- 30	-	- 21
Bank balances and other short-term funds abroad (excluding official reserves)	- 59	- 80	- 136	23	142
Canadian commercial paper	- 39	15	- 11	12	27
Canadian finance paper	8	- 3	11	31	57
Canadian finance company obligations n.i.e.	- 12	24	11	26	31
All other transactions including changes in loans and accounts receivable and payable(2)	53	126	12	57	- 39
Total (Item D 17)	- 53	36	- 143	141	197

(1) International Bank for Reconstruction and Development, International Development Association, and International Finance Corporation.

(2) Includes also balancing item representing difference between direct measurements of current and capital accounts.

Official Holdings of Gold and Foreign Exchange

Canada's external reserves decreased in the first quarter of 1964. The reduction in official holdings of gold and United States dollars amounted to \$140 million, while corresponding holdings of sterling, which are not large, rose by \$13 million. Canada's net International Monetary Fund position improved by \$85 million. While official holdings of gold and United States dollars were reduced somewhat in the quarter, they continue to be well above the peak level prior to 1962.

United States Dollar in Canada

Period	High	Low	Close	Noon average
Canadian cents				
1963 I Q	107.94	107.59	107.81	107.76
II Q	107.97	107.59	107.81	107.74
III Q	108.57	107.63	107.78	108.08
IV Q	108.09	107.72	108.06	107.83
1964 I Q	108.09	107.94	108.06	108.02

Canada's improved position with the International Monetary Fund was effected mainly by repurchases by Canada of Canadian dollars equivalent to \$59 million in United States funds; these repurchases were made mainly with Deutsche mark and French francs. A drawing by Italy of Canadian dollars equivalent to \$20 million in United States funds also improved Canada's net IMF position. (An announcement by the Minister of Finance has indicated that this drawing had not been converted into foreign exchange at the end of the quarter). These transactions reduced the International Monetary Fund's holdings of Canadian dollars expressed in terms of United States funds to \$530 million, and restored Canada's net IMF position to \$20 million. Canada's quota in the Fund is \$550

million and Canada is obligated in due course to reduce the Fund's holdings of Canadian dollars to 75 per cent of this amount. This would involve a further \$117 1/2 millions which would restore Canada's net International Monetary Fund position to \$137.5 million in terms of United States funds.

Official Holdings of Gold and United States Dollars, and Related Items

End of period		Official holdings of gold and United States dollars	Net International Monetary Fund position	Other special international financial assistance	Total of foregoing items
millions of United States dollars					
1962	IV Q	2,539	- 138	-	2,401
1963	I Q	2,600	- 138	-	2,462
	II Q	2,692	- 138	-	2,554
	III Q	2,568	- 58	-	2,510
	IV Q	2,595	- 58	-	2,537
1964	I Q	2,466	20	-	2,486
	January	2,582	- 59	-	2,523
	February	2,542	-	-	2,542
	March	2,466	20	-	2,486

International Monetary Fund: Canada's Position

Selected transactions				End of period		
	Net drawings of foreign currencies by Canada	Net drawings (-) of Canadian dollars by other countries	Sales of Canadian dollars to IMF for gold	IMF holdings of Canadian dollars(1)	Canada's gross IMF position(2)	Canada's net IMF position(3)
millions of United States dollars						
1947-1961	-	- 100	25	338	762	212
1962						
	I Q	-	10	-	348	752
	II Q	300	40	-	688	412
1963	III Q	- 80	-	-	608	492
1964	I Q	- 59	- 20	-	530	570

(1) Apart from the transactions shown, these holdings reflect mainly Canada's quota payments made in Canadian dollars. Since members are obligated to maintain the gold value of the IMF's holdings of their currencies, there have also been adjustment payments between the IMF and Canada in Canadian dollars, arising from changes in the exchange rate, which are not reflected because the series are shown in United States dollar equivalents.

(2) This "total tranche position" is a measure of Canada's drawing potential, i.e. the amount Canada could draw without raising the IMF's holdings of Canadian dollars beyond 200 per cent of quota.

(3) This is a cumulative measure of the net resources provided by Canada to the IMF. The Canadian dollar equivalent of the change appears as item H2 in the balance of payments statement.

NOTE

"The Canadian Balance of International Payments, 1961 and 1962 and International Investment Position" (D.B.S. Catalogue No. 67-201) will be officially released in about one month's time.

QUARTERLY STATISTICS OF THE CANADIAN
BALANCE OF INTERNATIONAL PAYMENTS

FIRST QUARTER 1962 - FIRST QUARTER 1964

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Note: Data for 1963 are preliminary and data for 1962 are subject to revision
1964

		1962		
No.		I	II	III
		millions of dollars		
A	Current receipts:			
1	Merchandise exports (adjusted)	1,395	1,620	1,628
3	Gold production available for export	43	42	39
4	Travel expenditures	46	126	294
5	Interest and dividends	33	52	44
6	Freight and shipping	104	128	133
7	Inheritances and immigrants' funds	20	31	42
11	All other current receipts	107	104	108
12	Total current receipts	1,748	2,103	2,288
B	Current payments:			
1	Merchandise imports (adjusted)	1,402	1,665	1,559
4	Travel expenditures	130	178	200
5	Interest and dividends	179	205	163
6	Freight and shipping	125	153	158
7	Inheritances and emigrants' funds	34	40	44
9	Official contributions	7	12	5
11	All other current payments	204	212	193
12	Total current payments	2,081	2,465	2,322
	Balance on merchandise trade	- 7	- 45	+ 69
	Balance on other transactions, excluding B 9	- 319	- 305	- 98
	Official contributions	- 7	- 12	- 5
C	Current account balance	- 333	- 362	- 34
D	Capital account:			
	Direct investment:			
1	Direct investment in Canada	+ 114	+ 87	+ 147
2	Direct investment abroad	- 29	- 31	- 25
	Canadian securities:			
3 a	Trade in outstanding bonds and debentures	- 3	+ 4	+ 39
3 b	Trade in outstanding common and preference stocks	- 14	- 44	- 26
4	New issues	+ 53	+ 194	+ 85
5	Retirements	- 72	- 71	- 53
6,7,8	Foreign securities	- 26	- 34	- 7
	Loans by Government of Canada:			
9	Drawings	-	-	- 7
10	Repayments	+ 3	+ 7	+ 68
	Change in Canadian dollar holdings of foreigners:			
14 a	Deposits	- 45	- 13	- 46
14 b	Government of Canada demand liabilities	- 3	- 2	- 3
14 c	Canadian treasury bills	+ 18	+ 50	- 3
17	Other capital movements	- 37	- 419	+ 551
E	Net capital movement, exclusive of change in official holdings of gold and foreign exchange	- 41	- 272	+ 720
H	Official holdings of gold and foreign exchange:			
1	Change in holdings	- 364	+ 114	+ 686
2	Net International Monetary Fund position	- 10	- 367	-
3	Other special international financial assistance	-	- 381	-

Notes: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in B 1) the annual reports on "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, B 11) insurance transactions, and business services.

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Note: Data for 1963 are preliminary and data for 1962 are subject to revision
1964

1962	1963				1964	Annual totals			Four quarters ended March 31, 1964	No.
IV	I	II	III	IV	I	1960	1961	1962		
millions of dollars										
1,721	1,482	1,772	1,801	2,009	1,727	5,392	5,889	6,364	7,309	A
41	45	41	38	42	36	162	162	165	157	1
94	50	132	320	100	59	420	482	560	611	3
82	43	56	43	86	48	173	209	211	233	4
133	114	139	143	154	134	442	486	498	570	5
31	27	38	48	36	31	102	103	124	153	6
107	110	111	112	111	108	419	403	426	442	7
2,209	1,871	2,289	2,505	2,538	2,143	7,110	7,734	8,348	9,475	11
										12
1,583	1,412	1,700	1,657	1,811	1,683	5,540	5,716	6,209	6,851	B
102	117	158	207	107	155	627	642	610	627	1
234	196	192	181	273	232	653	770	781	878	4
152	125	160	175	175	138	533	568	588	648	5
45	38	42	49	53	40	181	174	163	184	6
8	15	17	15	14	12	61	56	32	58	7
204	206	209	207	213	224	758	790	813	853	9
2,328	2,109	2,478	2,491	2,646	2,484	8,353	8,716	9,196	10,099	11
										12
+ 138	+ 70	+ 72	+ 144	+ 198	+ 44	- 148	+ 173	+ 155	+ 458	
- 249	- 293	- 244	- 115	- 292	- 373	- 1,034	- 1,099	- 971	- 1,024	
- 8	- 15	- 17	- 15	- 14	- 12	- 61	- 56	- 32	- 58	
- 119	- 238	- 189	+ 14	- 108	- 341	- 1,243	- 982	- 848	- 624	C
										D
+ 207	+ 75	+ 40	+ 50	+ 45	+ 75	+ 650	+ 520	+ 555	+ 210	
- 40	- 25	- 25	- 15	- 15	- 30	- 50	- 75	- 125	- 85	1
										2
+ 24	+ 23	+ 27	- 7	- 4	+ 1	+ 3	+ 61	+ 64	+ 17	3 a
- 32	- 56	- 44	- 27	- 42	- 58	+ 51	+ 39	- 116	- 171	3 b
+ 386	+ 411	+ 393	+ 109	+ 51	+ 155	+ 447	+ 538	+ 718	+ 708	4
- 125	- 54	- 174	- 34	- 65	- 61	- 265	- 300	- 321	- 334	5
- 3	+ 3	+ 23	- 4	- 2	- 5	- 19	- 34	- 70	+ 12	6,7,8
-	-	-	- 8	- 2	- 2	-	-	- 7	- 12	9
+ 51	-	+ 6	-	+ 19	+ 4	+ 32	+ 37	+ 129	+ 29	10
+ 92	- 29	+ 38	- 12	+ 43	+ 19	+ 79	+ 34	- 12	+ 88	14 a
+ 4	-	- 3	- 1	+ 5	-	- 12	- 2	- 4	+ 1	14 b
- 61	+ 9	- 17	+ 19	- 38	+ 4	+ 56	- 58	+ 4	- 32	14 c
+ 94	- 53	+ 36	- 143	+ 141	+ 197	+ 232	+ 512	+ 189	+ 231	17
+ 597	+ 304	+ 300	- 73	+ 136	+ 299	+ 1,204	+ 1,272	+ 1,004	+ 662	E
										H
+ 101	+ 66	+ 111	- 145	+ 28	- 127	- 39	+ 229	+ 537	- 133	1
-	-	-	+ 86	-	+ 85	-	+ 61	- 377	+ 171	2
+ 377	-	-	-	-	-	-	-	- 4	-	3

Notes: D A minus sign indicates an outflow of capital from Canada.

D 1,2 Exclusive of undistributed profits.

D 17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.

H 3 A minus sign indicates a receipt by Canada.

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**QUARTERLY ESTIMATES OF THE CANADIAN
BALANCE OF INTERNATIONAL PAYMENTS
SECOND QUARTER 1964**

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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

SECOND QUARTER 1964

There was a contraction in Canada's deficit in current transactions in goods and services in the second quarter of 1964 to \$175 million from \$204 million in the same period last year, in response to an increased export balance from merchandise trade. This contraction follows a much larger deficit in the first quarter when there was only a slight surplus on merchandise trade and an unusually large deficit from non-merchandise transactions. These differing results in the two quarters have been particularly influenced in one direction by wide shifts in the volume of wheat shipments with a concentration in the second quarter, and in the other direction by the coincidence of various irregular payments by Canada in the earlier period this year. Such variable factors acted to enlarge the deficit in the first quarter and to reduce it in the second. In the half year as a whole there was an increase in the deficit from \$452 million in 1963 to \$518 million in 1964 due entirely to increased net payments on account of non-merchandise transactions, as the export balance on merchandise account was slightly larger this year than last. The principal sources of the enlarged deficit were the travel and interest and dividend accounts.

Summary statement

	1962	1963	1963			1964	
			II Q	III Q	IV Q	I Q	II Q
			millions of dollars				
Merchandise trade balance	+ 177	+ 503	+ 74	+ 151	+ 204	+ 33	+ 127
Deficit on non-merchandise transactions	- 1,051	- 1,060	- 278	- 135	- 325	- 376	- 302
Current account balance	- 874	- 557	- 204	+ 16	- 121	- 343	- 175
Capital movements(1)	+ 1,029	+ 703	+ 315	- 75	+ 149	+ 301	+ 242
Long-term forms	+ 668	+ 613	+ 209	+ 33	- 4	- 5	+ 166
Short-term forms	+ 361	+ 90	+ 106	- 108	+ 153	+ 306	+ 76
Change in official exchange holdings(2)	+ 155	+ 146	+ 111	- 59	+ 28	- 42	+ 67

(1) Excluding change in official exchange holdings.

(2) Gold, foreign exchange, and net International Monetary Fund position, less special international financial assistance.

Led by an increase of nearly \$100 million in the proceeds of new security issues sold to non-residents, capital movements in long-term forms swung from an outflow of \$5 million in the first quarter to an inflow of \$166 million in the quarter. In each quarter the totals included some deliveries of securities sold in 1963. Further amounts of capital also flowed into Canada in each quarter in short-term forms, with Canadian money market paper being prominent. Between the quarters there were major movements in private and banking holdings of foreign exchange which declined sharply in the first quarter but were largely restored in the second. Official holdings of gold and foreign exchange together with Canada's net International Monetary Fund position, which declined in the first quarter, rose in the second.

Current Account Transactions in the Second Quarter

Canada's deficit in current transactions with other countries declined about 14 per cent to \$175 million in the second quarter of 1964 from \$204 million in the same period of 1963. In a comparison of second quarter balances, the 1964 deficit was the lowest since the June quarter of 1955. The deficit of \$518 million for the first half year 1964 was however more than 14 per cent above that

of \$452 million for the first half of 1963.

The decline in the current account deficit between the second quarters of 1963 and 1964 was attributable wholly to merchandise trade. The rise in the export balance of \$53 million was offset to the extent of about one-half by the widening in the deficit on non-merchandise transactions.

Large Gain in Merchandise Export Balance with Overseas Countries

The rise in merchandise trade surplus between the June quarters of 1963 and 1964 followed a larger gain in exports than in imports. The growth in Canada's exports from \$1,776 million to \$2,197 million exceeded 23 per cent. About \$150 million of the \$421 million increase in merchandise exports represented enlarged wheat shipments, with the rise in shipments being even more pronounced to the U.S.S.R. and to other countries in the Soviet area. Exports of iron ores and concentrates were nearly \$37 million higher in the second quarter of 1964. Shipments of newsprint and of wood pulp were each more than \$23 million higher. Larger shipments were recorded in a host of other commodities including wheat flour, crude petroleum and natural gas, asbestos, sulphur, synthetic rubber and plastics, semi-fabricated steel, alloys of non-ferrous metals, machinery, automobiles, engines, motor vehicle parts and aircraft. Exports of uranium continued to decline.

An estimated increase of over 21 per cent occurred in merchandise imports from \$1,702 million to approximately \$2,070 million in the second quarter of 1964. This total includes a projected estimate for the month of June which will be superseded by a tabulated figure only likely to become available after the publication of this report. Well over one-half of the \$285 million import increase in the March quarter was attributable to machinery, motor cars and parts, electrical apparatus and steel plate. Imports of a large variety of other consumer goods and industrial materials were also higher. Detailed statistics of imports for the June quarter are not yet available. However, the expansion in imports stimulated by continuing high economic activity in Canada in all likelihood encompassed a wide spectrum of commodities, with machinery, automobile parts and other industrial materials again contributing substantially to the overall increase.

Average prices of Canadian commodities entering export channels have not changed measurably during the past two years. Prices were on the average less than 1 per cent higher in the first half of 1964 over the same period of 1963. However, for some time increases in average import prices have been considerably higher, with a few primary commodities mainly responsible.

Rise in Deficit from Travel

The deficit of \$302 million arising from non-merchandise transactions in the second quarter of 1964 was well over 8 per cent wider than that of \$278 million one year before, in an extension of over

Interest and Dividends: Payments

Period	Total	Interest	Dividends
millions of dollars			
1961	770	259	511
1962	794	284	510
1963	869	324	545
1962			
II Q	212	76	136
III Q	168	63	105
IV Q	233	79	154
1963			
I Q	200	70	130
II Q	198	90	108
III Q	184	70	114
IV Q	287	94	193
1964			
I Q	231	78	153
II Q	203	95	108

the-year increases evident over the preceding several quarters. Larger net payments on travel accounted for almost all of the deterioration, as small increments to the deficits on interest and dividends and freight and shipping were offset by an enhanced value of gold production together with smaller official contributions and a slight reduction in the deficit on other current transactions. A much sharper rise in travel payments abroad from \$158 million to \$18 million than in receipts from \$132 million to \$138 million almost doubled the deficit from \$2 million to \$49 million. The worsening in the travel account balance occurred about evenly in Canada's transactions with the United States and with overseas countries. An addition of \$7 million to the deficit on interest and dividends of \$144 million in the second quarter of 1963 was derived from a rise in payments from \$198 million to \$203 million, together with a decline in receipts from \$54 million to \$52 million. Reduced payments of dividends on both direct and portfolio investments, offset by increased net profits of unincorporated branches in Canada,

maintained the totals paid at \$108 million in the second quarters of the two years. Net payments of interest and dividends represented one-half of the total deficit on "invisibles" in the most recent

Summary of Current Transactions with the United States, United Kingdom and Other Countries
1963 and 1964, and Changes Between the Periods

	1963	1964	Change	1963	1964	Change
	millions of dollars					
<u>Second quarter</u>	<u>All countries</u>			<u>United States</u>		
Merchandise exports (adjusted)	1,776	2,197	+ 421	1,012	1,128	+ 116
Merchandise imports (adjusted)	1,702	2,070	+ 368	1,159	1,424	+ 265
Balance on merchandise trade	+ 74	+ 127	+ 53	- 147	- 296	- 149
Other current receipts	515	555	+ 40	355	369	+ 14
Other current payments	793	857	+ 64	554	594	+ 40
Balance on non-merchandise transactions ...	- 278	- 302	- 24	- 199	- 225	- 26
Total receipts	2,291	2,752	+ 461	1,367	1,497	+ 130
Total payments	2,495	2,927	+ 432	1,713	2,018	+ 305
Current account balance	- 204	- 175	+ 29	- 346	- 521	- 175
<u>January to June</u>						
Merchandise exports (adjusted)	3,262	3,927	+ 665	1,901	2,080	+ 179
Merchandise imports (adjusted)	3,114	3,767	+ 653	2,189	2,657	+ 468
Balance on merchandise trade	+ 148	+ 160	+ 12	- 288	- 577	- 289
Other current receipts	903	985	+ 82	621	652	+ 31
Other current payments	1,503	1,663	+ 160	1,032	1,145	+ 113
Balance on non-merchandise transactions ...	- 600	- 678	- 78	- 411	- 493	- 82
Total receipts	4,165	4,912	+ 747	2,522	2,732	+ 210
Total payments	4,617	5,430	+ 813	3,221	3,802	+ 581
Current account balance	- 452	- 518	- 66	- 699	-1,070	- 371
<u>Second quarter</u>	<u>United Kingdom</u>			<u>Other countries</u>		
Merchandise exports (adjusted)	268	324	+ 56	496	745	+ 249
Merchandise imports (adjusted)	139	181	+ 42	404	465	+ 61
Balance on merchandise trade	+ 129	+ 143	+ 14	+ 92	+ 280	+ 188
Other current receipts	68	79	+ 11	92	107	+ 15
Other current payments	84	94	+ 10	155	169	+ 14
Balance on non-merchandise transactions ...	- 16	- 15	+ 1	- 63	- 62	+ 1
Total receipts	336	403	+ 67	588	852	+ 264
Total payments	223	275	+ 52	559	634	+ 75
Current account balance	+ 113	+ 128	+ 15	+ 29	+ 218	+ 189
<u>January to June</u>						
Merchandise exports (adjusted)	481	590	+ 109	880	1,257	+ 377
Merchandise imports (adjusted)	242	317	+ 75	683	793	+ 110
Balance on merchandise trade	+ 239	+ 273	+ 34	+ 197	+ 464	+ 267
Other current receipts	123	141	+ 18	159	192	+ 33
Other current payments	175	206	+ 31	296	312	+ 16
Balance on non-merchandise transactions ...	- 52	- 65	- 13	- 137	- 120	+ 17
Total receipts	604	731	+ 127	1,039	1,449	+ 410
Total payments	417	523	+ 106	979	1,105	+ 126
Current account balance	+ 187	+ 208	+ 21	+ 60	+ 344	+ 284

period under review, as compared with nearly 52 per cent in the second quarter of 1963. In the latter period, travel deficit accounted for more than 9 per cent and net payments on "miscellaneous current transactions" well over 43 per cent of the deficit on non-merchandise transactions. In the June quarter of 1964, the corresponding shares were more than 16 per cent and nearly 39 per cent.

Transactions by Area

Geographically, the improvement in the current balance between the two quarters occurred in Canada's transactions with overseas countries. A rise in the overseas surplus of almost two-and-a-half times -- from \$142 million to \$346 million -- was offset by an increase of about 50 per cent in the deficit with the United States from \$346 million to \$521 million. Within the overseas area, most of the improvement in export balances arose from the exceptionally large sales of wheat to Eastern Europe, although there were fairly widespread gains in exports to other countries as well.

Total receipts on transactions in current goods and services with the United States rose more than 9 per cent from \$1,367 million to \$1,497 million in the second quarter of 1964. The relative increase in total payments to the United States was nearly twice as great from \$1,713 million to \$2,018 million over the same period. Roughly 85 per cent of the \$175 million addition to the deficit was attributable to merchandise trade. Exports increased from \$1,012 million to \$1,128 million, while estimated imports were up some \$265 million to \$1,424 million. In addition to the change from a small surplus to a deficit on travel account, alluded to elsewhere, larger net freight and shipping payments contributed to the widening in the deficit on non-merchandise transactions with the United States, as did most other components.

In transactions with the United Kingdom, total receipts advanced from \$336 million to \$403 million, while total payments increased from \$223 million to some \$275 million. The larger export balance accounted for most of the improvement in the current account balance with the United Kingdom. Likewise with other overseas countries, a three-fold expansion in the export balance contributed almost all of the improvement of \$189 million in the current account surplus with those countries. As already noted, wheat on account of Eastern European countries was the largest element in the increase.

Current Account Transactions in the First Half Year

Canada's current account deficit of \$518 million for the first six months of the year was \$66 million or more than 14 per cent above that in the same period of 1963, on account of the much higher first quarter imbalance in 1964. The deficit with the United States widened some 50 per cent from \$699 million to \$1,070 million, while the surplus with overseas countries more than doubled from \$247 million to \$552 million in the first half of 1964. This change in the bilateral distribution of the current account balance was similar to that in the second quarter of the year. Merchandise trade accounted for all of the half-year improvement in the surplus on current transactions with overseas areas and something over three-fourths of the widening in the deficit with the United States.

Both exports and imports grew more than 20 per cent between the first two quarters of 1963 and 1964. Exports rose from \$3,262 million to \$3,927 million, and imports from \$3,114 million to an estimated total of \$3,767 million. Almost one-third, or close to \$220 million, of the \$665 million increase in merchandise exports originated from wheat and flour shipments. The increase due to these two commodities on Russian account approximated \$235 million. In addition, exports of wheat to other countries in Eastern Europe were some \$25 million higher in 1964. The value of clearances of wheat in the half year to other OECD countries in Europe were slightly higher; but shipments to Mainland China were lower by about \$25 million and those to the Sterling Area countries smaller by nearly the same amount. There were many other commodities whose exports advanced substantially between the first half years 1963 and 1964. Shipments of iron ores and concentrates rose \$45 million; and the advance to the United States was even higher. The increase in the value of aircraft and parts (after allowance for progress payments and deliveries) was in excess of \$40 million. Exports of lumber and plywood, newsprint, wood pulp, semi-fabricated steel and semi-processed non-ferrous metals each increased between \$30 million and \$40 million. Smaller yet sizable gains were seen in exports of such diverse products as barley, crude petroleum, asbestos, machinery, railway rolling stock, automobiles and motor vehicle parts. Shipments of uranium were down close to \$40 million.

Deficit on Services and Other Non-Merchandise Items

Net payments on non-merchandise transactions rose 13 per cent from \$600 million in the six months of 1963 to \$678 million in 1964, which was up slightly over \$665 million for the same period in

1962. The widening in the deficit on "invisibles" was due largely to the imbalance on travel, interest and dividend transactions becoming decidedly more unfavourable, travel by \$52 million and the latter group by \$22 million. As was the case with the aggregate non-merchandise deficit, net payments on these two items were lower in the first half of 1963 than in the same period of the contiguous years. Changes in the balances on other items between the half years 1963 and 1964 were moderate and offsetting.

Major Items in the Balance on
Non-Merchandise Transactions

	First six months				Change in 1964
	1961	1962	1963	1964	
	millions of dollars				
Gold production available for export	+ 83	+ 81	+ 79	+ 74	- 5
Travel	- 155	- 135	- 93	- 145	- 52
Interest and dividends ...	- 283	- 315	- 302	- 324	- 22
Freight and shipping	- 36	- 43	- 32	- 27	+ 5
Inheritances and migrants' funds	- 31	- 23	- 15	- 13	+ 2
Official contributions ...	- 21	- 21	- 32	- 27	+ 5
All other current transac- tions	- 180	- 209	- 205	- 216	- 11
Balance on non-merchandise transactions	- 623	- 665	- 600	- 678	- 78

Travel Expenditures

	First six months				Change in 1964
	1961	1962	1963	1964	
	millions of dollars				
United States:					
Receipts	120	150	159	171	+ 12
Payments	222	230	192	242	+ 50
Balance	- 102	- 80	- 33	- 71	- 38
Overseas:					
Receipts	22	23	23	26	+ 3
Payments	75	78	83	100	+ 17
Balance	- 53	- 55	- 60	- 74	- 14
All countries:					
Receipts	142	173	182	197	+ 15
Payments	297	308	275	342	+ 67
Balance	- 155	- 135	- 93	- 145	- 52

Nearly three-fourths of the \$52 million deterioration in the travel balance occurred vis-à-vis the United States, the deficit bounding back to \$71 million from the unusually low level of \$33 million in the first half of 1963. Receipts from United States travellers in Canada rose over 7 per cent to \$171 million, but expenditures in the United States by Canadians expanded 26 per cent from \$192 million to \$242 million. Receipts from overseas visitors, which were relatively stable for the first two quarters of 1961, 1962 and 1963, rose appreciably in 1964. Payments abroad by Canadians, however, have grown more relatively from much higher levels within the past year.

An increase of \$36 million in payments of interest and dividends, offset by a rise of \$14 million in receipts, caused the deficit to widen by \$22 million. Of the \$36 million addition to payments, higher interest accounted for \$13 million and dividend payments were up \$23 million. A large proportion of the latter increase represented enhanced remittances of dividends by subsidiaries in Canada to their parents in the United States in the first quarter of 1964.

In a percentage breakdown of the total deficit on "invisibles", the pattern for the first half of 1964 was more similar to that of the same period in 1962 than 1963. In 1962 and 1964, net payments on interest and dividends represented

between 47 and 48 per cent of the total, but over 50 per cent in 1963. Net travel payments accounted for more than 15 per cent of the non-merchandise deficit in the first two quarters of 1963, as contrasted with over 20 per cent in the contiguous years. Changes respecting the other service items were modest.

Transactions by Areas

An estimated increase of 18 per cent in Canada's total payments to the United States for current goods and services from \$3,221 million to \$3,802 million in the six months of 1964 far outweighed the gain of 8 per cent in aggregate receipts from \$2,522 million to \$2,732 million. In consequence, the deficit expanded more than 50 per cent to \$1,070 million. As referred to before, over three-fourths of

this change originated in merchandise trade, with imports recording a gain of approximately 20 per cent from \$2,189 million to \$2,657 million and exports rising from \$1,901 million to \$2,080 million, or some 9 per cent. Similarly in non-merchandise transactions, the increase in payments from \$1,032 million to \$1,145 million was relatively more than double the advance in receipts from \$621 million to \$652 million. Nine-tenths of the widening in the non-merchandise deficit with the United States pertained to larger net payments on travel, interest, dividends, freight and shipping.

Quarterly Current Account Balances

	I Q	II Q	III Q	IV Q	Year
	millions of dollars				
United States:					
1961	- 433	- 435	- 151	- 367	- 1,386
1962	- 342	- 426	- 75	- 279	- 1,122
1963	- 353	- 346	- 66	- 418	- 1,183
1964	- 549	- 521			
United Kingdom:					
1961	+ 39	+ 27	+ 42	+ 79	+ 187
1962	+ 9	+ 50	+ 53	+ 106	+ 218
1963	+ 74	+ 113	+ 93	+ 120	+ 400
1964	+ 80	+ 128			
Other Countries:					
1961	+ 57	+ 97	+ 47	+ 16	+ 217
1962	-	+ 6	- 22	+ 46	+ 30
1963	+ 31	+ 29	- 11	+ 177	+ 226
1964	+ 126	+ 218			

An over-the-year comparison of the quarterly current account balances with the United Kingdom has been consistently favourable since the second quarter of 1962. Between the first six months of 1963 and 1964, a larger absolute gain in total receipts from \$604 million to \$731 million than in total payments from \$417 million to \$523 million raised the surplus 11 per cent to \$208 million. All of this improvement took place in merchandise trade, as the deficit on service transactions widened moderately. The increase in merchandise exports from \$481 million to \$590 million exceeded by \$34 million that in imports from \$242 million to an estimated total of \$317 million.

Well over 90 per cent of the sizable expansion of \$284 million in Canada's current account surplus with other overseas countries was derived from countries other than those in the Sterling area or in the OECD group in Europe. With the Rest of the Sterling Area countries, the surplus for the six months increased

moderately, while the deficit with the other OECD countries in Europe widened slightly. A substantial gain in the export balance represented the bulk of the improvement in the current account surplus with "other countries"; and higher clearances of wheat and flour to the Soviet bloc countries in Europe, amounting to more than \$240 million, accounted for over 90 per cent of the swelling in the merchandise trade surplus. In addition, exports were higher in the half year to Cuba and Japan, by well over \$25 million to each of the two countries, and to a much lesser extent to Latin American countries such as Mexico and Venezuela. Nearly two-thirds of the rise to Cuba arose from higher shipments of wheat and flour, referred to before. A range of commodities was encompassed in the export gain to Japan, including newsprint, pulp, coal, asbestos, metal materials, fertilizers and card-punch machines. Locomotives and railway rails accounted for the gain in exports to Mexico, while automobiles and semi-fabricated steel were featured in higher exports to Venezuela. Shipments of wheat to Mainland China declined markedly from the high level of the first half of 1963.

The statement giving the geographical distribution of Canada's current account balance and capital movements in long-term forms (referred to by some as the "basic" balance) shows that in the second quarter Canada incurred a deficit of \$521 million on current account with the United States and received \$234 million net of capital in long-term forms from that country. The remainder of \$287 million to be financed from other sources, although very large, was some \$200 million smaller than in the first quarter. (If the production of new gold available for export, which is conventionally attributed to the United States, is abstracted, the balance in the second quarter exceeds \$325 million.) Capital inflows from the United States in short-term forms appear to have been of the same general order of magnitude, and Canadian transactions appear on balance to have had relatively little net effect on the United States balance of payments. This was in contrast to the first quarter when they contributed substantially to its strengthening, both through reductions in Canada's private and official exchange holdings in that country and through the use there of Canadian earnings elsewhere in the world.

With the United Kingdom and other overseas countries Canada earned a current account surplus of \$346 million. Capital outflows in long-term forms to these countries aggregated \$68 million in the quarter leaving a surplus from these types of transactions of \$278 million. There were also large capital outflows to these countries in short-term forms.

Area Distribution of Current Account Balance and Capital Movements in Long-Term Forms

Area and period			Current account balance(1)	Capital movements in long-term forms	Total of foregoing items	Total of foregoing items excluding gold production available for export
millions of dollars						
United States:						
1961	Year		- 1,386	931	- 455	- 617
1962	"		- 1,122	668	- 454	- 609
1963	"		- 1,183	839	- 344	- 498
1963	First	Quarter	- 353	390	37	- 4
	Second	"	- 346	272	- 74	- 112
	Third	"	- 66	111	45	9
	Fourth	"	- 418	66	- 352	- 391
1964	First	"	- 549	62	- 487	- 520
	Second	"	- 521	234	- 287	- 328
United Kingdom and other overseas countries:						
1961	Year		404	- 21	383	383
1962	"		248	-	248	248
1963	"		626	- 226	400	400
1963	First	Quarter	105	- 15	90	90
	Second	"	142	- 63	79	79
	Third	"	82	- 78	4	4
	Fourth	"	297	- 70	227	227
1964	First	"	206	- 67	139	139
	Second	"	346	- 68	278	278

(1) Including gold production available for export.

Capital Movements

Summary	1962			1963				1964	
	II Q	III Q	IV Q	I Q	II Q	III Q	IV Q	I Q	II Q
millions of dollars									
Capital movements in long-term forms ...	- 20	+ 214	+ 460	+ 375	+ 209	+ 33	- 4	- 5	+ 166
Capital movements in short-term forms(1)	- 244	+ 516	+ 145	- 61	+ 106	- 108	+ 153	+ 306	+ 76
Balance on goods and services	- 370	- 44	- 127	- 248	- 204	+ 16	- 121	- 343	- 175

Change in official holdings of gold, foreign exchange, and net Inter- national Monetary Fund position, less special international financial assist- ance	- 634	+ 686	+ 478	+ 66	+ 111	- 59	+ 28	- 42	+ 67
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(1) Excluding items in final line.

The flow of capital in long-term forms, which was on balance slightly outwards from Canada in the final quarter of 1963 and the first quarter of 1964, moved inwards in the second quarter. The net inflow of \$166 million was of the same order of magnitude as the current account deficit in the period.

Capital Inflows in Long-Term Forms

Period	Actual Inflow	Adjusted to reflect timing of security contracts
	millions of dollars	
1962 Year	+ 668	+ 951
1963 "	+ 613	+ 427
1963 First quarter	+ 375	+ 506
Second "	+ 209	- 23
Third "	+ 33	- 43
Fourth "	- 4	- 13
1964 First "	- 5	- 54
Second "	+ 166	+ 127

About \$35 million of the change from the first quarter reflected increased net inflows of a direct investment nature, \$126 million covered increased receipts from security transactions, and \$10 million originated from other flows in long-term forms.

A part of the inflow reflected deliveries of new issues of Canadian bonds and debentures arranged earlier and if the series is adjusted to reflect the timing of contracts the net inflow in long-term forms in the quarter would have been \$127 million and in the half-year \$73 million. In the half-year Canada's net purchases of goods and services aggregated \$518 million.

Movements in short-term forms led to a capital inflow of \$76 million, down sharply from the total of \$306 million for the first quarter. On balance most of the change reflected a swing in the movement of Canadian-owned bank balances and other short-term forms abroad. These holdings were reduced by \$141 million in the first quarter and

increased by \$112 million in the second, representing capital inflows and outflows respectively of these amounts. Money market instruments contributed substantial inflows in each quarter.

Together these capital movements produced \$242 million in the second quarter and \$301 million in the first. The current account deficits were \$175 million and \$343 million respectively and Canada's official holdings of gold and foreign exchange and net International Monetary Fund position rose by \$67 million in the second quarter, after falling \$42 million in the first.

DIRECT INVESTMENT Net inflows of foreign capital for direct investment in foreign-controlled enterprises in Canada rose sharply in the second quarter to \$85 million, from \$65 million in the first quarter. At this level they were larger than for any quarter since 1962, although well below the levels prevailing generally for several years earlier. Most of the net movement came from the United States, with overseas countries contributing less than \$15 million.

Takeover transactions have been occurring in both directions on a significant scale but their net effect was about equal in each quarter and they contributed only about one-sixth of the balance of inflows for direct investment in Canada in the first half of the year.

Industrially the largest parts of the net inflow in the second quarter went to manufacturing enterprises, and to the petroleum and natural gas industry, which each attracted more than one-third of the total. A substantial part of the inflow to manufacturing was directed to takeovers. In the first quarter mining attracted close to half the net movement while manufacturing attracted nearly as much, practically all for takeovers. Petroleum and natural gas received about a quarter of the net inflow, while a reverse takeover involving the repatriation of a large block of shares in a financial institution contributed to offsetting outflows.

Movements of Canadian capital for direct investment abroad involved a net capital export of \$25 million in the second quarter. This compared with \$40 million in the first quarter when there were unusually large transfers to manufacturing enterprises abroad, particularly in the United Kingdom. In the six month period about half of the net outflow for direct investment abroad has been to the United Kingdom, while the balance of the movement has been divided about equally between the United States and other overseas countries.

SECURITY TRANSACTIONS The capital inflow from all transactions in bonds and stocks amounted to \$135 million in the second quarter of 1964. Although easily the highest inflow since the middle of 1963 the total is far short of the levels recorded in the three quarters prior to July of 1963. In the second quarter of 1964 receipts from non-residents from the sale of new issues aggregated \$255 million (including deliveries of \$71 million contracted earlier but excluding \$32 million sold for later delivery). Net sales by Canadians of outstanding Canadian bonds and debentures totalled \$15 million while net repurchases of outstanding Canadian stocks offset the inflow by \$8 million. Retirements of foreign-held issues amounted to \$91 million. The net inflow of \$171 million from these transactions in Canadian issues was offset to the extent of \$36 million by capital outflows in connection with the acquisition of foreign securities, which were unusually large.

New Issues of Canadian Bonds Sold to
United States Residents

Detail of Transactions in Foreign Securities

Period		Contracts	Deliveries	Undelivered(1)
		millions of dollars		
1962	Year	960	677	306
1963	"	719	905	120
1963	I Q	525	394	437
	II Q	136	368	205
	III Q	16	92	129
	IV Q	42	51	120
1964	I Q	96	145	71
	II Q	193	232	32

Item	1963				1964	
	I Q	II Q	III Q	IV Q	I Q	II Q
millions of dollars						
Outstanding issues ..	+ 5	+ 22	- 4	+ 19	- 3	- 28
New issues	- 6	- 4	- 4	- 26	- 4	- 10
Retirements	+ 5	+ 6	+ 5	+ 5	+ 2	+ 2

(A minus sign indicates an outflow of capital from Canada).

(1) At end of period.

OTHER CAPITAL MOVEMENTS IN LONG-TERM FORMS

In the second quarter of 1964 there were no loans made by the Government of Canada to overseas

countries, apart from amounts advanced under export credit programmes. Repayments of principal falling due in the period amounted to only \$2.3 million from Belgium.

The remaining capital movements in long-term forms in the second quarter produced a net outflow of \$31 million, moderately smaller than the net outflow of \$41 million which occurred in the first quarter. On balance over the half-year there was a small inflow from the United States and a small outflow to the United Kingdom, while the net outflow was entirely to other overseas countries. These totals included net outflows of about \$43 million and \$30 million respectively arising from loans and advances under Government programmes related to the financing of Canadian exports. Prominent among these transactions were wheat credits to some Sino-Soviet countries and financing of exports of a wide range of capital equipment to developing countries. The other movements amounted to a net inflow of \$12 million in the second quarter, following a net outflow of about the same size in the first quarter. For the most part these figures reflected flows of bank borrowings and insurance funds.

Composition of "Other Capital Movements"
(A minus sign indicates an outflow of capital from Canada)

Transactions with all countries	1962				1963				1964	
	I Q	II Q	III Q	IV Q	I Q	II Q	III Q	IV Q	I Q	II Q
millions of dollars										
Subscriptions to international investment agencies(1)	-	-	- 7	- 8	-	-	-	- 8	-	-
Long-term capital transactions, n.i.e.	- 11	- 135	23	7	3	- 38	- 21	6	- 41	- 31
Bank balances and other short-term funds abroad (excluding official reserves)	41	- 208	242	18	- 62	- 81	- 137	25	141	- 112
Canadian commercial paper					(- 39	15	- 11	12	27	- 19
Canadian finance paper	28	-	36	69	(9	- 1	12	32	67	83
Canadian finance company obligations, n.i.e.					(- 4	26	15	32	29	34
All other transactions(2)	- 94	- 72	284	30	55	129	7	42	19	88
Total (Item D 17)	- 36	- 415	578	116	- 38	50	- 135	141	242	43

(1) International Bank for Reconstruction and Development, International Development Association, and International Finance Corporation.

(2) Includes changes in loans and accounts receivable and payable, and also balancing item representing difference between direct measurements of current and capital accounts.

CAPITAL MOVEMENTS IN SHORT-TERM FORMS

Canadian dollar holdings of foreigners taking the form of deposits, Government of Canada demand liabilities and treasury bills, rose on balance by \$2 million in the second quarter. This small increase followed a similar movement of \$23 million in the first quarter. Deposit liabilities fell by \$9 million in contrast to the increase of \$19 million which occurred in the first quarter; it has been indicated that a drawing in the first quarter by Italy from the International Monetary Fund of Canadian dollars equivalent to \$20 million in United States funds was converted into foreign currency in April. These transactions contributed to the quarterly changes. Demand liabilities of the Government, which remained unchanged in the first quarter, were reduced by \$3 million in the second. Against these outflows were inflows from increased holdings by non-residents of treasury bills. These holdings totalled \$39 million at the beginning of the year, rising by \$4 million in the first quarter and \$14 million in the second to a total of \$57 million.

The largest group of capital movements shown separately in the supplementary statement covering "Other Capital Movements" was again the net change in bank balances and other short-term funds abroad (excluding official reserves). These holdings had been reduced in the first quarter from the record year-end total of about \$1.3 billion at the end of 1963. The resulting inflow of \$141 million in the first quarter was reversed to the extent of \$112 million by an outflow in the second quarter which added to these short-term holdings.

Among capital flows of a money market character, reference has already been made to a modest increase in holdings of Canadian treasury bills by non-residents in the second quarter. Holdings of Canadian commercial paper, on the other hand, were reduced and there was a net capital outflow from these transactions of \$19 million in contrast to the inflow of \$27 million recorded in the first quarter. Sizeable and increased inflows were involved in the operations of finance companies. Finance paper outstanding in the hands of non-residents is estimated to have increased by \$83 million, while other finance company obligations to non-residents apart from publicly offered long-term issues rose by a further \$34 million. These operations of finance companies have brought into Canada during the first half of 1964 well over \$200 million of foreign capital.

All other capital movements gave rise to a capital inflow of \$88 million in the second quarter, following an inflow of \$19 million in the first. Repayments of bank loans accounted for most of the net inflow in the second quarter.

Official Holdings of Gold and Foreign Exchange

Canada's external reserves rose in the second quarter of 1964. The increase in official holdings of gold and United States dollars amounted to \$74 million in Canadian funds, while corresponding holdings of sterling fell by \$12 million. Canada's net International Monetary Fund position improved by \$5 million as the result of a drawing in Canadian funds by another country.

United States Dollar in Canada

Period	High	Low	Close	Noon average
Canadian cents				
1963 I Q	107.94	107.59	107.81	107.76
II Q	107.97	107.59	107.81	107.74
III Q	108.57	107.63	107.78	108.08
IV Q	108.09	107.72	108.06	107.83
1964 I Q	108.09	107.94	108.06	108.02
II Q	108.25	108.03	108.13	108.09

in terms of United States funds.

Official holdings of gold and United States funds, expressed in terms of United States dollars, amounted to \$2,534 million at mid-year. Canada's net IMF position, - the cumulative measure of net resources provided by Canada to the Fund - was at the same time equivalent to \$25 million in United States dollars. Canada's present quota in the Fund is \$550 million and Canada is obligated in due course to reduce the Fund's holdings of Canadian dollars from their present level of \$535 million to 75 per cent of the quota. This would involve a further amount of somewhat more than \$112 million which would restore Canada's net International Monetary Fund position to \$137.5 million

Official Holdings of Gold and United States Dollars and Related Items

End of period		Official holdings of gold and United States dollars	Net International Monetary Fund position	Other special international financial assistance	Total of foregoing items
millions of United States dollars					
1963	II Q	2,692	- 138	-	2,554
	III Q	2,568	- 58	-	2,510
	IV Q	2,595	- 58	-	2,537
1964	I Q	2,466	20	-	2,486
	II Q	2,534	25	-	2,559
	April	2,481	20	-	2,501
	May	2,509	20	-	2,529
	June	2,534	25	-	2,559

International Monetary Fund: Canada's Position

Selected transactions				End of period		
	Net drawings of foreign currencies by Canada	Net drawings (-) of Canadian dollars by other countries	Sales of Canadian dollars to IMF for gold	IMF holdings of Canadian dollars(1)	Canada's gross IMF position(2)	Canada's net IMF position(3)
millions of United States dollars						
1947-1961	-	- 100	25	338	762	212
1962	300	50	-	688	412	- 138
1963	III Q - 80	-	-	608	492	- 58
1964	I Q - 59	- 20	-	530	570	20
	II Q -	- 5	-	525	575	25

- (1) Apart from the transactions shown, these holdings reflect mainly Canada's quota payments made in Canadian dollars. Since members are obligated to maintain the gold value of the IMF's holdings of their currencies, there have also been adjustment payments between the IMF and Canada in Canadian dollars, arising from changes in the exchange rate, which are not reflected because the series are shown in United States dollar equivalents.
- (2) This "total tranche position" is a measure of Canada's drawing potential, i.e. the amount Canada could draw without raising the IMF's holdings of Canadian dollars beyond 200 per cent of quota.
- (3) This is a cumulative measure of the net resources provided by Canada to the IMF. The Canadian dollar equivalent of the change appears as item H2 in the balance of payments statement.

NOTE

"The Canadian Balance of International Payments, 1961 and 1962 and International Investment Position" (D.B.S. Catalogue No. 67-201) is now available. Orders, together with remittance of \$1.00 in the form of cheque or money order, made payable to the Receiver General of Canada, may be sent to the Publications Distribution Unit, Financial Control Section, Dominion Bureau of Statistics, or to the Queen's Printer, Ottawa, Canada. (Data for 1962 and 1963 appearing in this quarterly publication contain revisions)

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Note: Data for 1964 are preliminary and data for 1963 are subject to revision

No.		1962			1963
		II	III	IV	I
		millions of dollars			
A	Current receipts:				
1	Merchandise exports (adjusted)	1,624	1,632	1,724	1,486
3	Gold production available for export	40	38	36	41
4	Travel expenditures	127	297	92	50
5	Interest and dividends	49	41	83	42
6	Freight and shipping	132	136	135	117
7	Inheritances and immigrants' funds	31	42	31	27
11	All other current receipts	111	113	114	111
12	Total current receipts	2,114	2,299	2,215	1,874
B	Current payments:				
1	Merchandise imports (adjusted)	1,664	1,559	1,582	1,412
4	Travel expenditures	182	197	100	117
5	Interest and dividends	212	168	233	200
6	Freight and shipping	154	160	154	128
7	Inheritances and emigrants' funds	40	49	52	38
9	Official contributions	14	6	9	15
11	All other current payments	218	204	212	212
12	Total current payments	2,484	2,343	2,342	2,122
	Balance on merchandise trade	- 40	+ 73	+ 142	+ 74
	Balance on other transactions, excluding B9	- 316	- 111	- 260	- 307
	Official contributions	- 14	- 6	- 9	- 15
C	Current account balance	- 370	- 44	- 127	- 248
D	Capital account:				
	Direct investment:				
1	Direct investment in Canada	+ 81	+ 118	+ 192	+ 67
2	Direct investment abroad	- 22	- 24	- 39	- 22
	Canadian securities:				
3 a	Trade in outstanding bonds and debentures	+ 4	+ 39	+ 24	+ 23
3 b	Trade in outstanding common and preference stocks	- 45	- 26	- 32	- 56
4	New issues	+ 197	+ 88	+ 387	+ 408
5	Retirements	- 74	- 53	- 120	- 52
6,7,8	Foreign securities	- 33	- 5	- 2	+ 4
	Loans by Government of Canada:				
9	Drawings	-	- 7	-	-
10	Repayments	+ 7	+ 68	+ 51	-
	Change in Canadian dollar holdings of foreigners:				
14 a	Deposits	- 12	- 47	+ 92	- 29
14 b	Government of Canada demand liabilities	- 2	+ 4	- 3	-
14 c	Canadian treasury bills	+ 50	- 3	- 61	+ 9
17	Other capital movements	- 415	+ 578	+ 116	- 38
E	Net capital movement, exclusive of change in official holdings of gold and foreign exchange	- 264	+ 730	+ 605	+ 314
H	Official holdings of gold and foreign exchange:				
1	Change in holdings	+ 114	+ 686	+ 101	+ 66
2	Net International Monetary Fund position	- 367	-	-	-
3	Other special international financial assistance	- 381	-	+ 377	-

Notes: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in

B 1) the annual reports on "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income,

B 11) insurance transactions, and business services.

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Note: Data for 1964 are preliminary and data for 1963 are subject to revision

1963			1964		Annual totals			Four quarters ended	No.
II	III	IV	I	II	1961	1962	1963	June 30, 1964	
millions of dollars									
1,776	1,806	2,014	1,730	2,197	5,889	6,380	7,082	7,747	A
38	36	39	33	41	162	155	154	149	1
132	325	102	59	138	482	562	609	624	3
54	42	85	58	52	209	202	223	237	4
140	146	157	135	166	486	509	560	604	5
38	48	36	31	42	103	124	149	157	6
113	113	112	114	116	403	451	449	455	7
2,291	2,516	2,545	2,160	2,752	7,734	8,383	9,226	9,973	11
									12
1,702	1,655	1,810	1,697	2,070	5,716	6,203	6,579	7,232	B
158	207	107	155	187	642	605	589	656	1
198	184	287	231	203	770	794	869	905	4
161	177	175	140	188	568	595	641	680	5
42	49	53	40	46	174	175	182	188	6
17	15	14	12	15	56	36	61	56	7
217	213	220	228	218	790	849	862	879	9
2,495	2,500	2,666	2,503	2,927	8,716	9,257	9,783	10,596	11
									12
+ 74	+ 151	+ 204	+ 33	+ 127	+ 173	+ 177	+ 503	+ 515	
- 261	- 120	- 311	- 364	- 287	- 1,099	- 1,015	- 999	- 1,082	
- 17	- 15	- 14	- 12	- 15	- 56	- 36	- 61	- 56	
- 204	+ 16	- 121	- 343	- 175	- 982	- 874	- 557	- 623	C
									D
+ 50	+ 60	+ 63	+ 65	+ 85	+ 520	+ 495	+ 240	+ 273	1
- 37	- 21	- 30	- 40	- 25	- 75	- 109	- 110	- 116	2
+ 27	- 7	- 4	+ 4	+ 15	+ 61	+ 64	+ 39	+ 8	3 a
- 44	- 27	- 42	- 44	- 8	+ 39	- 116	- 169	- 121	3 b
+ 394	+ 100	+ 66	+ 157	+ 255	+ 538	+ 728	+ 968	+ 578	4
- 173	- 40	- 70	- 103	- 91	- 300	- 320	- 335	- 304	5
+ 24	- 3	- 2	- 5	- 36	- 34	- 65	+ 23	- 46	6,7,8
-	- 8	- 2	- 2	-	-	- 7	- 10	- 12	9
+ 6	-	+ 19	+ 4	+ 2	+ 37	+ 129	+ 25	+ 25	10
+ 38	- 12	+ 43	+ 19	- 9	+ 34	- 13	+ 40	+ 41	14 a
- 3	-	+ 4	-	- 3	- 2	- 4	+ 1	+ 1	14 b
- 17	+ 18	- 37	+ 4	+ 14	- 58	+ 4	- 27	- 1	14 c
+ 50	- 135	+ 141	+ 242	+ 43	+ 512	+ 243	+ 18	+ 291	17
+ 315	- 75	+ 149	+ 301	+ 242	+ 1,272	+ 1,029	+ 703	+ 617	E
									H
+ 111	- 145	+ 28	- 127	+ 62	+ 229	+ 537	+ 60	- 182	1
-	+ 86	-	+ 85	+ 5	+ 61	- 378	+ 86	+ 176	2
-	-	-	-	-	-	- 4	-	-	3

Notes: D A minus sign indicates an outflow of capital from Canada.

D 1,2 Exclusive of undistributed profits.

D 17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.

H 3 A minus sign indicates a receipt by Canada.

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QUARTERLY ESTIMATES OF THE CANADIAN
BALANCE OF INTERNATIONAL PAYMENTS
THIRD QUARTER 1964



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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

THIRD QUARTER 1964

The balance from transactions in goods and services in Canada's account with other countries has fluctuated irregularly in 1964 in relation to the previous year. In each of the second and third quarters the results this year have been quite favourable compared with the same quarters last year, whereas in the first quarter the opposite was the case. In the third quarter there was a surplus of \$219 million compared with one of \$16 million last year. This surplus in 1964 also contrasts with the deficits characteristic of the years from 1955 to 1962. Exports have exceeded imports in the third quarter in each of the past five years, and this is also the quarter when a concentration in the tourist trade to Canada yields a large surplus on travel account. The pronounced rise in exports in the quarter continued to be distributed over a wide range of commodities and the rate of increase was higher than in the case of imports.

Summary statement

	1962	1963	1963			1964			
			II Q	III Q	IV Q	I Q	II Q	III Q	
	millions of dollars								
Merchandise trade balance	+ 177	+ 503	+ 74	+ 151	+ 204	+ 33	+ 149	+ 359	
Deficit on non-merchandise transactions	- 1,051	- 1,060	- 278	- 135	- 325	- 376	- 305	- 140	
Current account balance	- 874	- 557	- 204	+ 16	- 121	- 343	- 156	+ 219	
Capital movements(1)	+ 1,029	+ 703	+ 315	- 75	+ 149	+ 301	+ 223	- 62	
Long-term forms	+ 668	+ 613	+ 209	+ 33	- 4	- 30	+ 123	+ 192(3)	
Short-term forms	+ 361	+ 90	+ 106	- 108	+ 153	+ 331	+ 100	- 254	
Change in official exchange holdings(2)	+ 155	+ 146	+ 111	- 59	+ 28	- 42	+ 67	+ 157	

(1) Excluding change in official exchange holdings.

(2) Gold, foreign exchange, and net International Monetary Fund position, less special international financial assistance.

(3) Including net receipts of \$54 million under the Columbia River Treaty arrangements.

In the period covering nine months ending in September, the current deficit of \$280 million compares with \$436 million in the corresponding part of 1963. Again the great expansion in the merchandise surplus is responsible for the change but this surplus remains much less than the deficit from non-merchandise transactions over an extended period like the three quarters. While the surplus from merchandise trade rose from \$299 million to \$541 million, the deficit from non-merchandise transactions grew from \$735 million to \$821 million, mainly from increasing payments of interest and dividends on foreign investments in Canada and from the reappearance of a deficit on travel account in the longer period.

The rise in exports was widely distributed as to destinations as well as commodities, and reflects the strong demands prevailing among Canada's usual external markets as well as special factors such as the sale of large amounts of grain to Communist countries.

Current Account Transactions in the Third Quarter

The sharp improvement in the current account surplus between the third quarters of 1963 and 1964 was ascribable in its entirety to merchandise trade, as net payments on non-merchandise transactions widened slightly. The trade surplus much more than doubled from \$151 million to \$359 million, and the increase occurred wholly in trade with overseas countries. With the rise in the deficit with the United States not quite offsetting the gain in surplus with the United Kingdom, the expansion in the surplus with other overseas countries just about accounted for the overall increase.

The widening in the trade surplus was caused by a gain in exports, which was more than twice that in imports. Merchandise exports, adjusted for balance of payments purposes, increased \$378 million, or more than 20 per cent, from \$1,806 million to \$2,184 million. Much larger shipments of wheat, nickel, aluminum, iron ores and other metals and minerals, and aircraft and parts accounted for roughly 60 per cent of the addition to total exports. Increased exports were recorded for many other commodities including barley, wheat flour, dairy products, newsprint, wood pulp, fertilizers, steel, many kinds of machinery, automobiles and parts. Exceptions were exports of uranium and lumber which were reduced in the third quarter of 1964.

Imports rose \$170 million or about 10 per cent from \$1,655 million in the third quarter of 1963 to \$1,825 million in the same period in 1964. The commodity details for imports in the latest quarter are not yet available. Steel, machinery, motor vehicles and parts dominated the increase in imports for the first six months; but imports of other industrial materials and a variety of consumer goods were also larger. With the size of the business investment programme in new construction, machinery and equipment and the maintenance of income at high levels, the commodity composition of the rise in imports in the September quarter would likely be broadly similar to that of the preceding six months.

Quarterly Current Account Balances

	I Q	II Q	III Q	IV Q	Year
	millions of dollars				
United States:					
1961	- 433	- 435	- 151	- 367	- 1,386
1962	- 342	- 426	- 75	- 279	- 1,122
1963	- 353	- 346	- 66	- 418	- 1,183
1964	- 549	- 512	- 120		
United Kingdom:					
1961	+ 39	+ 27	+ 42	+ 79	+ 187
1962	+ 9	+ 50	+ 53	+ 106	+ 218
1963	+ 74	+ 113	+ 93	+ 120	+ 400
1964	+ 80	+ 140	+ 155		
Other countries:					
1961	+ 57	+ 97	+ 47	+ 16	+ 217
1962	-	+ 6	- 22	+ 46	+ 30
1963	+ 31	+ 29	- 11	+ 177	+ 226
1964	+ 126	+ 216	+ 184		

Overall, the deficit on non-merchandise transactions was enlarged moderately from \$135 million to \$140 million in the third quarter of 1964. The deficit however on interest and dividends increased \$15 million, due mainly to higher income payments on direct investment while net payments on freight and shipping services narrowed \$10 million on account of a larger advance in receipts than in payments.

The deficit on current transactions in goods and services with the United States increased about 80 per cent from \$66 million to \$120 million. The increase in total payments to this country of 12 per cent, from \$1,645 million to \$1,843 million, exceeded the 9 per cent rise in total receipts from \$1,579 million to \$1,723 million in the third quarter of 1964. In

transactions with the United Kingdom the surplus expanded about two-thirds from \$93 million to \$155 million. With other overseas countries, a small deficit of \$11 million changed into a surplus of \$184 million. This over-the-year improvement was of the same order of magnitude as that which occurred between the second quarters of 1963 and 1964.

Current Account Transactions in the Nine Months

Between the first three quarters of 1963 and 1964, the improvement in Canada's current account balance with all countries was not as pronounced as that between the two September quarters, as there was a widening in the deficit in the first quarter of the year. Bilaterally, the pattern of change for the nine months was similar to that for the third quarter. The current account deficit with the United States widened and the surplus with the United Kingdom and other overseas countries increased.

The current account deficit narrowed from \$436 million to \$280 million in the first three quarters of 1964 as a result of a rise of nearly 18 per cent in total receipts from \$6,681 million to \$7,869 million, which was offset in part by a 14 per cent increase in total payments from \$7,117 million to \$8,149 million. This favourable change was based on a sizable gain in the export balance, as the deficit on non-merchandise transactions widened, but less substantially.

Merchandise exports expanded more than 20 per cent from \$5,068 million to \$6,111 million, while merchandise imports were estimated to have increased nearly 17 per cent from \$4,769 million to \$5,570 million. In conformity with the regular practice, "Trade of Canada" totals have been adjusted for use in balance of payments statements. The essence of these adjustments is to obtain a timing of

Summary of Current Transactions with the United States, United Kingdom and Other Countries
1963 and 1964, and Changes Between the Periods

	1963	1964	Change	1963	1964	Change
millions of dollars						
<u>Third quarter</u>	<u>All countries</u>			<u>United States</u>		
Merchandise exports (adjusted)	1,806	2,184	+ 378	1,034	1,148	+ 114
Merchandise imports (adjusted)	1,655	1,825	+ 170	1,084	1,231	+ 147
Balance on merchandise trade	+ 151	+ 359	+ 208	- 50	- 83	- 33
Other current receipts	710	769	+ 59	545	575	+ 30
Other current payments	845	909	+ 64	561	612	+ 51
Balance on non-merchandise transactions ...	- 135	- 140	- 5	- 16	- 37	- 21
Total receipts	2,516	2,953	+ 437	1,579	1,723	+ 144
Total payments	2,500	2,734	+ 234	1,645	1,843	+ 198
Current account balance	+ 16	+ 219	+ 203	- 66	- 120	- 54
<u>January to September</u>						
Merchandise exports (adjusted)	5,068	6,111	+ 1,043	2,935	3,228	+ 293
Merchandise imports (adjusted)	4,769	5,570	+ 801	3,273	3,873	+ 600
Balance on merchandise trade	+ 299	+ 541	+ 242	- 338	- 645	- 307
Other current receipts	1,613	1,758	+ 145	1,166	1,228	+ 62
Other current payments	2,348	2,579	+ 231	1,593	1,764	+ 171
Balance on non-merchandise transactions ...	- 735	- 821	- 86	- 427	- 536	- 109
Total receipts	6,681	7,869	+ 1,188	4,101	4,456	+ 355
Total payments	7,117	8,149	+ 1,032	4,866	5,637	+ 771
Current account balance	- 436	- 280	+ 156	- 765	- 1,181	- 416
<u>Third quarter</u>	<u>United Kingdom</u>			<u>Other Countries</u>		
Merchandise exports (adjusted)	270	324	+ 54	502	712	+ 210
Merchandise imports (adjusted)	136	134	- 2	435	460	+ 25
Balance on merchandise trade	+ 134	+ 190	+ 56	+ 67	+ 252	+ 185
Other current receipts	70	81	+ 11	95	113	+ 18
Other current payments	111	116	+ 5	173	181	+ 8
Balance on non-merchandise transactions ...	- 41	- 35	+ 6	- 78	- 68	+ 10
Total receipts	340	405	+ 65	597	825	+ 228
Total payments	247	250	+ 3	608	641	+ 33
Current account balance	+ 93	+ 155	+ 62	- 11	+ 184	+ 195
<u>January to September</u>						
Merchandise exports (adjusted)	751	914	+ 163	1,382	1,969	+ 587
Merchandise imports (adjusted)	378	440	+ 62	1,118	1,257	+ 139
Balance on merchandise trade	+ 373	+ 474	+ 101	+ 264	+ 712	+ 448
Other current receipts	193	223	+ 30	254	307	+ 53
Other current payments	286	322	+ 36	469	493	+ 24
Balance on non-merchandise transactions ...	- 93	- 99	- 6	- 215	- 186	+ 29
Total receipts	944	1,137	+ 193	1,636	2,276	+ 640
Total payments	664	762	+ 98	1,587	1,750	+ 163
Current account balance	+ 280	+ 375	+ 95	+ 49	+ 526	+ 477

large and specific transactions more appropriate for balance of payments than is normally found in the trade statistics. This usually involves the recording of receipts or payments at an earlier time and their subsequent deletion as they appear in the trade statistics. Adjustments related to the timing of wheat shipments and differences between progress payments and deliveries of military aircraft were the principal items of adjustment to exports. These two adjustments represented the bulk of the additions to trade totals of \$25 million and \$35 million in the second and third quarters of 1963 respectively. Similarly, they contributed most of the adjustments to export trade totals of a deduction of well over \$50 million in the first quarter of 1964, an addition of more than \$45 million in the June quarter, followed by a deduction of about \$40 million in the third quarter. Adjustments to imports have been considerably less substantial, except in the first quarter of 1964, when major progress payments on defence goods and on commercial aircraft coincided to add more than \$40 million to the Trade of Canada total of imports.

Major Items in the Balance on
Non-Merchandise Transactions.

	First nine months				Change in 1964
	1961	1962	1963	1964	
	millions of dollars				
Gold production available for export	+ 124	+ 119	+ 115	+ 109	- 6
Travel	- 120	- 35	+ 25	- 25	- 50
Interest and dividends	- 413	- 442	- 444	- 485	- 41
Freight and shipping	- 52	- 67	- 63	- 47	+ 16
Inheritances and migrants' funds	- 49	- 30	- 16	- 17	- 1
Official contributions	- 36	- 27	- 47	- 50	- 3
All other current transac- tions	- 277	- 300	- 305	- 306	- 1
Balance on non-merchandise transactions	- 823	- 782	- 735	- 821	- 86

including fish products, natural gas, petroleum, asbestos, sulphur, railway rolling stock, chemicals, fertilizers, synthetic rubber and plastic materials.

Deficit on Services and Other Non-Merchandise Items

In non-merchandise transactions, Canada's deficit with the rest of the world increased \$86 million, or nearly 12 per cent, from \$735 million in the three quarters of 1963 to \$821 million; but

Travel Expenditures

	First nine months				Change in 1964
	1961	1962	1963	1964	
	millions of dollars				
United States:					
Receipts	358	429	459	494	+ 35
Payments	372	352	323	391	+ 68
Balance	- 14	+ 77	+ 136	+ 103	- 33
Overseas:					
Receipts	39	41	48	56	+ 8
Payments	145	153	159	184	+ 25
Balance	- 106	- 112	- 111	- 128	- 17
All countries:					
Receipts	397	470	507	550	+ 43
Payments	517	505	482	575	+ 93
Balance	- 120	- 35	+ 25	- 25	- 50

An increase of \$365 million in shipments of wheat, flour, barley and other cereals accounted for more than one-third of the export expansion of \$1,043 million. Exports of newsprint, wood pulp, lumber and plywood were nearly \$140 million higher, and those of non-ferrous metals over \$110 million greater in the first three quarters of 1964. Shipments of iron ores increased more than \$60 million and those of steel over \$40 million. The gain in exports of motor vehicles and parts exceeded \$50 million, machinery more than \$40 million, and aircraft and parts (adjusted for progress payments and deliveries) also over \$40 million. Less sizable increases were recorded in exports of other commodities

the former total was lower than for the same period in the preceding three years. The most recent total was about the same size as that for the nine months of 1961. These fluctuations were caused to a large extent by sharply changing balances on travel account. Larger net payments of interest and dividend also contributed to the widening in the deficit on "invisibles" between the three quarters of 1963 and 1964.

A surplus of \$25 million on travel in the first nine months of 1963 was transformed into a deficit of \$25 million by an expansion in payments to \$575 million, more than double the increase in receipts to \$550 million. Two-thirds of the

deterioration originated from travel transactions with the United States, with the gross expenditures on the two-way traffic reaching the highest recorded level for the first three quarters. Residents of the United States spent \$494 million in Canada in 1964, up \$35 million over 1963, while the Canadian expenditure on travel in the United States rose \$68 million from \$323 million to \$391 million. Receipts from overseas visitors rose \$8 million to \$56 million, while the travel spending by Canadians overseas expanded from \$159 million to \$184 million. This increase of \$25 million, sharpest for a 9-month period in recent years, was attributable in part to the introduction in 1964 of reduced air fares covering travel time of two to three weeks' duration. More of the widening in the overseas travel deficit took place in the June quarter, while all of the deterioration in the balances with the United States occurred in the first two quarters.

Net payments of interest and dividends rose 9 per cent from \$444 million to \$485 million in the first three quarters of 1964. An increase in payments of nearly 11 per cent from \$582 million to \$645 million was in part offset by a smaller gain in receipts from \$138 million to \$160 million. Most of the increment to receipts was in the form of dividends, in particular on direct investment. More than 70 per cent of the rise in the payments was ascribable to dividends, which went up from \$352 million to \$398 million. The entire increase represented transfers on direct investments, there being a small decline of remittances of portfolio investment dividends. Although dividend rates have been tending to rise, portfolio holdings by non-residents of Canadian stocks are now smaller than several years ago. Interest payments rose \$17 million from \$230 million to \$247 million, reflecting large sales to non-residents particularly in the earlier quarters of 1963 of provincial and corporation bonds and smaller sales of Government of Canada and municipal bonds.

Interest and Dividends: Payments

Period		Total	Interest	Dividends
millions of dollars				
1961		770	259	511
1962		794	284	510
1963		869	324	545
1962	III Q	168	63	105
	IV Q	233	79	154
1963	I Q	200	70	130
	II Q	198	90	108
	III Q	184	70	114
	IV Q	287	94	193
1964	I Q	231	78	153
	II Q	210	95	115
	III Q	204	74	130

There were smaller additions to the non-merchandise deficit on account of migrants' funds and inheritances, official contributions and miscellaneous current transactions. In the last group, the deficit on government account recorded an increase of some size. The settlement of Canada's share of the expenditures on the Korean operations and the refitting costs of submarines in the first quarter of the year were in part offset by lower defence outlays in Europe. The value of gold production available for export declined from \$115 million to \$109 million.

The narrowing in net payments on freight and shipping services from \$63 million to \$47 million was the notable offset to the general increase in the "invisible" deficit. In association with the growth in merchandise trade, both receipts and payments on freight

and shipping services rose substantially, but with the receipts gaining more. Inland freight on exports of Canadian commodities, ocean freight earnings and expenditures in Canada of foreign ships all contributed to the enlarged receipts. Higher inland freight payments on commodities imported from the United States constituted the largest element in the overall payments increase, but ocean freight payments on imports and expenditures abroad by Canadian-operated vessels also rose in the first three quarters of 1964.

In the nine months of 1964, interest and dividends accounted for 59 per cent of the total deficit on service transactions, slightly lower than in the year preceding but well above the average of 54 per cent for the first 9-month period in the sixties' decade. With the turnaround from a surplus to a net payments position again in the most recent period under review, the deficit on travel account represented 3 per cent of the total, as compared with more than 7 per cent average for the first three quarters of the year since 1960. Between 1963 and 1964, the proportion of the deficit originating from freight and shipping declined from roughly 8 1/2 per cent to 5 1/2 per cent and on miscellaneous current transactions from 41 1/2 per cent to over 37 per cent. The latter relative share was however one percentage point above the average for the first three quarters since 1960.

Transactions by Areas

An increase of 54 per cent in the deficit on current transactions in goods and services with the United States from \$765 million to \$1,181 million in the first nine months of 1964 was outweighed

by a more than 170 per cent gain in the surplus with overseas countries from \$329 million to \$901 million. This resulted in reducing the deficit with all countries over one-third from \$436 million to \$280 million.

Total receipts from the United States increased from \$4,101 million to \$4,456 million, or nearly 9 per cent, while total payments increased almost 16 per cent from \$4,866 million to \$5,637 million. Somewhat short of 75 per cent of the addition to the current account deficit originated in merchandise trade, with net imports increasing about 90 per cent from \$338 million to \$645 million in the first three quarters of 1964. Merchandise exports to the United States gained 10 per cent from \$2,935 million to \$3,228 million, while merchandise imports increased more than 18 per cent from \$3,273 million to \$3,873 million. Contributing to the expanded exports were commodities such as newsprint, wood pulp, iron ores, petroleum, natural gas, nickel, aluminum, copper, asbestos, steel, machinery, whisky, aircraft and parts.

In non-merchandise transactions with the United States, the 9-month deficit widened more than 25 per cent from \$427 million to \$536 million. All of the items contributed to this increase; and references have been made earlier to changes involving the value of gold production available for export, travel expenditures, interest and dividends. In contrast to the improvement in the freight and shipping balance with all countries, Canada's deficit with the United States widened on account of a larger rise in payments of inland freight on imports than receipts on exports of Canadian commodities.

Total receipts from the United Kingdom gained more than 20 per cent from \$944 million to \$1,137 million, while total payments rose from \$664 million to \$762 million, or roughly 15 per cent. The improvement in the current account balance from \$280 million to \$375 million was derived entirely from an expansion of 27 per cent in the export balance from \$373 million to \$474 million. Many metals, including aluminum, copper, nickel, iron ores and zinc, were featured among commodities whose shipments increased in the first three quarters of 1964. Exports of flaxseed, barley, tobacco, lumber, plywood, wood pulp, newsprint, synthetic rubber and plastics were also higher.

A small rise in the deficit on non-merchandise transactions from \$93 million to \$99 million was attributable to increases in net payments on travel and government accounts. Rises in travel expenditures by Canadians in the United Kingdom were larger than in receipts, and the coincidence in the first quarter of payments of defence costs past and present was referred to elsewhere. As a counter-balance, the surplus on freight and shipping services widened because of smaller increases in payments than in receipts of both ocean and inland freight earnings on merchandise exports and greater expenditures in Canada by vessels of the United Kingdom.

Total receipts on current transactions with other countries gained nearly 40 per cent to \$2,27 million, as compared with a 10 per cent increase in total payments to \$1,750 million. In consequence, the current account surplus rose to \$526 million for the first three quarters of 1964, approximately 11 times larger than \$49 million for the same period of 1963. Over 85 per cent of the massive expansion of \$477 million was estimated to have originated in transactions with countries outside the OECD group and the Rest of the Sterling Area. The latter group accounted for roughly 12 per cent of the gain in the surplus.

Merchandise trade virtually accounted for all of the overall improvement for the entire group of other countries, with exports increasing more than 42 per cent to \$1,969 million and imports rising about 12 per cent to \$1,257 million. Shipments of wheat and flour on Russian account, which were completed in the third quarter, represented about one-half of the total increase of \$587 million in merchandise exports. Movements of wheat to other countries in Eastern Europe were also more than \$50 million higher in the first nine months of 1964; and increased shipments of wheat and barley to Mainland China amounted to more than \$20 million.

Canada's current account balance together with capital movements in long-term forms (described by some as the "basic" balance) produced \$411 million in the third quarter. This balance was unusually high due to the coincidence of relatively large capital inflows in long-term forms and a greatly enlarged current account surplus. The total exceeded by \$5 million the net payments on these accounts in the first half of the year; in the 9-month period of 1963 net receipts totalled \$181 million.

The area distribution of these totals is shown in the accompanying statement. Canada experienced in the third quarter a deficit of \$120 million on current account with the United States and received \$212 million net of capital in long-term forms. On a 9-month basis the current account deficit with the United States totalled \$1,181 million and the net receipt of capital in long-term forms from that country was \$454 million. If the production of new gold available for export, conventionally attributed to the United States, is excluded the balance from these transactions amounted to net receipts of \$57 million from the United States in the third quarter and to net payments of \$836 million

in the nine months. Capital outflows in short-term forms more than offset the net receipts from current transactions and capital movements in long-term forms in the third quarter, and in this sense Canada's transactions with the United States appear on balance once again to have been a source of strength to the United States balance of payments in this period; in both the second and third quarters the net effect was however relatively small.

With the United Kingdom and other overseas countries Canada earned a current account surplus of \$339 million in the quarter and \$901 million in the nine months. Capital outflows in long-term forms in the quarter and 9-month period totalled \$20 million and \$169 million respectively. There were also large capital outflows in short-term forms to these countries in both periods.

Area Distribution of Current Account Balance and Capital Movements in Long-Term Forms

Area and period			Current account balance(1)	Capital movements in long-term forms	Total of foregoing items	Total of foregoing items excluding gold production available for export
millions of dollars						
United States:						
1961	Year		- 1,386	931	- 455	- 617
1962	"		- 1,122	668	- 454	- 609
1963	"		- 1,183	839	- 344	- 498
1963	First	Quarter	- 353	390	37	- 4
	Second	"	- 346	272	- 74	- 112
	Third	"	- 66	111	45	9
	Fourth	"	- 418	66	- 352	- 391
1964	First	"	- 549	42	- 507	- 540
	Second	"	- 512	200	- 312	- 353
	Third	"	- 120	212	92	57
United Kingdom and other overseas countries:						
1961	Year		404	- 21	383	383
1962	"		248	-	248	248
1963	"		626	- 226	400	400
1963	First	Quarter	105	- 15	90	90
	Second	"	142	- 63	79	79
	Third	"	82	- 78	4	4
	Fourth	"	297	- 70	227	227
1964	First	"	206	- 72	134	134
	Second	"	356	- 77	279	279
	Third	"	339	- 20	319	319

(1) Including gold production available for export (attributed to United States account).

Capital Movements

Summary	1963				1964		
	I Q	II Q	III Q	IV Q	I Q	II Q	III Q
	millions of dollars						
Capital movements in long-term forms ...	+ 375	+ 209	+ 33	- 4	- 30	+ 123	+ 192
Capital movements in short-term forms(1)	- 61	+ 106	- 108	+ 153	+ 331	+ 100	- 254
Balance on goods and Services	- 248	- 204	+ 16	- 121	- 343	- 156	+ 219
Change in official holdings of gold, foreign exchange, and net Inter- national Monetary Fund position, less special international financial assist- ance	+ 66	+ 111	- 59	+ 28	- 42	+ 67	+ 157

(1) Excluding items in final line.

The inflow of capital in long-term forms rose to \$192 million in the third quarter from \$123 million in the second. Some \$54 million of the increase of \$69 million reflected net receipts of a special character arising under the Columbia River Treaty. Receipts from security transactions which accounted for \$79 million of the inflow in the third quarter were some \$73 million smaller than in the preceding quarter. Net inflows of a direct investment character aggregating \$45 million were some \$25 million higher than in the second quarter, and all other flows in long-term forms produced \$14 million in contrast to large outflows in the second quarter. Undelivered sales to non-resident of new issues of Canadian securities rose sharply, but will appear in the balance of payments only as deliveries are made.

Capital Inflows in Long-Term Forms

Period	Actual Inflow	Adjusted to reflect timing of security contracts
	millions of dollars	
1962 Year	+ 668	+ 943
1963 "	+ 613	+ 408
1963 First quarter	+ 375	+ 506
Second "	+ 209	- 42
Third "	+ 33	- 43
Fourth "	- 4	- 13
1964 First "	- 30	- 64
Second "	+ 123	+ 67
Third "	+ 192	+ 377

The inflow in long-term forms in the first three quarters of 1964 totalled \$285 million, which would be increased to \$380 million if the series were adjusted to reflect the timing of contracts for new issues rather than their delivery. In the same period Canada incurred a current account deficit of \$280 million for the net purchase of goods and services.

Movements in short-term forms led to a capital outflow of \$254 million, a sharp swing from the inflow of \$100 million in the second quarter, to which each of the published components contributed.

Together these capital movements involved an outflow of \$62 million in the third quarter, following an inflow of \$223 million in the second. The current account balances were respectively a surplus of \$219 million and a deficit of \$156 million. Canada's official holdings of gold and foreign exchange and net International Monetary Fund position rose by \$157 million in the third quarter compared with \$67 million in the second.

DIRECT INVESTMENT

Net inflows of foreign capital for direct investment in foreign-controlled enterprises in Canada declined appreciably from the \$60 million recorded in both the earlier quarters of 1964 to \$35 million in the third quarter, the lowest quarterly inflow for well over a decade. By far the largest part of the net movement came from the United States.

There were large movements both inwards and outwards, with significant amounts associated in the takeover by non-residents of Canadian-controlled enterprises, reverse movements involving the acquisition by residents of interests previously held by non-residents, and international refinancing of other types not directly associated with current capital formation. On balance these financial transactions relating to takeovers, repatriations and refinancing appear to have resulted in net inflows in the first quarter, but in net outflows thereafter. (Neither the figure for direct investment flows nor new security issues in the second quarter reflects the repayment to a parent company of about \$30 million from the proceeds of the sale to a non-resident institutional buyer of a new issue by the Canadian subsidiary. If this offsetting transaction were reflected, direct investment inflows would be smaller, and new issue inflows larger, than shown at present).

Industrially the largest part of the net inflow in the third quarter, amounting to perhaps one half of the total, went to manufacturing enterprises. Mining and petroleum and natural gas organizations each received significant inflows. Net reverse outflows occurred in both merchandising and the miscellaneous industries groups.

In the 9-month period total capital inflows for direct investment in Canada aggregated \$155 million. By far the largest bulk of the inflow was generated by United States controlled companies, while the capital influx from the United Kingdom was about half that coming from other overseas countries. The industrial distribution of the net investment over the total period was very similar to that recorded in the third quarter.

For the first time since the third quarter of 1958 there was on balance no capital outflow to augment Canadian direct investments abroad. After the relatively high capital exports of \$40 million in each of the first two quarters of 1964 a net capital inflow of \$10 million occurred in the period

under review, which was mainly the result of a few special transactions including some refinancing. These transactions produced on balance capital inflows for the manufacturing and miscellaneous industries groups which were partially offset by outflows mainly for mining enterprises. Geographically inflows of about twice the global amount were received from the United States which were somewhat supplemented by the United Kingdom. The normal pattern of outflows to other countries reduced the inflows by more than half.

Capital outflows for Canadian direct investment abroad totalled \$70 million in the first three quarters of 1964. Over half this amount was directed to investments in overseas countries other than the United Kingdom while most of the remainder went to the latter country. Only a negligible outflow moved on balance to the United States. Investment in manufacturing enterprises attracted the major capital movement from Canada.

SECURITY TRANSACTIONS Transactions in bonds and stocks brought \$79 million into Canada in the third quarter. There were net inflows of \$65 million, \$5 million and \$9 million from residents of the United States, the United Kingdom, and other overseas countries, respectively. The total was down sharply from the figure of \$152 million for the second quarter, but net undelivered sales of new issues which had been reduced in the second quarter increased significantly in the third.

The principal attraction for non-resident portfolio investment continued to be new and outstanding issues of Canadian bonds and debentures, with sales balances of \$103 million and \$36 million respectively during the third quarter. There were also small inflows arising from sales of new issues of Canadian equities and the retirement of foreign securities held by Canadians. Retirements of called and maturing Canadian securities held abroad led to a capital outflow of \$51 million. The repatriation of outstanding Canadian stocks continued over the third quarter, but at a lower level than that generally prevailing in preceding quarters, resulting in an outflow of \$10 million. Other small outflows of capital occurred for the acquisition of new and outstanding foreign issues.

Over the nine months of 1964 Canada has received a balance of \$229 million from transactions between Canada and all countries in portfolio securities, which compares with amounts of \$578 million and \$12 million in the corresponding periods of 1963 and 1962 respectively.

New Issues of Canadian Bonds Sold to
United States Residents

Detail of Transactions in Foreign Securities

Period					Contracts	Deliveries	Unde- livered(1)							
					millions of dollars			Item	1963			1964		
									II Q	III Q	IV Q	I Q	II Q	III Q
1962	Year	952	677	328										
1963	"	700	905	123										
1963	I Q	525	394	459										
	II Q	117	368	208	Outstanding issues ..	+ 22	- 4	+ 19	- 3	- 28	- 2			
	III Q	16	92	132										
	IV Q	42	51	123	New issues	- 4	- 4	- 26	- 4	- 10	- 5			
1964	I Q	111	145	89										
	II Q	190	246	33	Retirements	+ 6	+ 5	+ 5	+ 2	+ 2	+ 2			
	III Q	278	93	218										

(1) At end of period.

THE COLUMBIA RIVER TREATY

Studies and negotiations between Canada and the United States in connection with the development of the hydro-electric power potential of the Columbia River have extended over a period of twenty years. The Columbia River Treaty and Protocol signed by the two countries in 1964 embodies a unique and complex set of arrangements for the development of these waters, of which only the bare highlights can be given in these paragraphs. For further details the reader is referred to "The Columbia River Treaty And Protocol - A Presentation", which was issued in April 1964 by the Departments of External Affairs and of Northern Affairs and

Natural Resources. (This publication is available from the Queen's Printer, Ottawa, Price \$3.00, Cat. No. E2-4564.)

Special financial arrangements agreed between Canada and the United States in connection with the project were described by the Minister of Finance in some detail in the House of Commons on July 10, 1964.

Under the arrangements British Columbia has undertaken to build, within a nine-year period, storage projects in the Columbia River basin in Canada. These facilities will control a very large amount of water, part of which will be committed to produce power benefits downstream in the United States, which will be shared equally between the two countries as well as substantial benefits in and for Canada itself. Some of this storage will also be operated to provide flood control; and payments will be made to Canada for flood damage prevented in the United States. Canada has sold its share of the first thirty years' production of downstream benefits in return for a lump sum payment on September 16, 1964 in the amount of \$253,929,534 in United States funds. Flood control payments to be made to Canada by the United States in the years 1968, 1969 and 1973 aggregate a further \$64.4 million in United States funds.

Funds necessary for the purchase of downstream benefits were raised in the United States by the Columbia Storage Power Exchange, a non-profit organization of the power producers and users concerned, and paid to the Government of Canada in United States funds. The Government of Canada then paid equivalent Canadian funds to the Government of British Columbia, apart from some funds which British Columbia elected to receive in United States dollars in order to redeem outstanding debt. The United States funds remaining in the hands of the Minister of Finance were invested in medium-term non-marketable securities of the United States Government. As these securities mature it is expected that their proceeds will be taken into the Exchange Fund Account and employed in short-term United States Government securities in the normal way. The effect of the arrangement is to even out the flow of funds into Canada's holdings in the Exchange Fund Account, and to spread the impact of the transfer of so large a sum of money on the United States balance of payments over a longer period. The non-marketable securities acquired under the arrangement do not form a part of Canada's official holdings of foreign exchange. The Minister of Finance indicated however, that while there was no formal agreement on the basis of discussions with the United States Treasury, he was confident that should need arise arrangements could be made to translate the securities into marketable securities.

As shown in the accompanying statement all but \$50,000,000 of the receipt of \$253,929,534 in United States funds was invested in securities maturing from 1965 to 1971 inclusive. The remaining amount of \$50,000,000 was in effect made available in United States funds to the Province of British Columbia. It is the Canadian dollar equivalent of this amount which appears in item D11 as net receipts under the Columbia River Treaty arrangements.

COLUMBIA RIVER TREATY FUNDS

Transactions (expressed in millions of Canadian dollars)	Third Quarter 1964	Official holdings of medium term non-marketable United States Government securities n.i.e. 30 September, 1964 (millions of United States dollars)			
Receipts under Treaty	+ 273.9	4 %	maturing	Nov. 1, 1965	30.0
		4-1/8%	"	Nov. 1, 1966	30.0
Change in official holdings of medium term non-marketable United States Government securities n.i.e. (increase, -)	- 220.0	4-1/4%	"	Nov. 1, 1967	30.0
		4-1/4%	"	Nov. 1, 1968	30.0
		4-1/4%	"	Nov. 1, 1969	30.0
		4-1/4%	"	Nov. 1, 1970	30.0
		4-1/4%	"	Nov. 1, 1971	23.9
Net capital movement recorded in item D11	+ 53.9				203.9

OTHER CAPITAL MOVEMENTS IN LONG-TERM FORMS

In the third quarter loans made by the Government of Canada to overseas countries, apart from amount advanced under export credit programmes, totalled less than \$0.5 million and there were no capital subscriptions to international investment agencies. Repayments of principal falling due in the period amounted to \$1.1 million.

The remaining capital movements in long-term forms in the third quarter produced \$13 million in contrast to the net outflows of about \$50 million which occurred in each of the earlier quarters of 1964. These figures included net outflows of about \$29 million, \$40 million and \$27 million in the successive quarters of 1964 arising from loans and advances under Government programmes related to the financing of Canadian exports. Prominent among these transactions were wheat credits to some Sino-Soviet countries and the financing of exports of a wide range of capital equipment to developing countries. The change from the second to the third quarter reflected mainly the incidence of repayments, including some in advance of maturity, and credits extended in the period increased. Apart from these transactions there were net outflows of \$21 million and \$11 million in the first and second quarters of the year respectively, and an inflow of \$40 million in the third. For the most part these figures reflect flows of bank borrowings and insurance funds, together with some amounts which it is not yet possible to classify to other long-term forms.

CAPITAL MOVEMENTS IN SHORT-TERM FORMS

International currency disturbances during the quarter were transmitted through the exchange markets of the

world and were almost undoubtedly an influence affecting items of the Canadian balance of payments, particularly capital flows in short-term forms. Statistical techniques necessary to evaluate fully such influences as the relationship of the forward exchange market to the balance of payments have yet to be evolved.

Canadian dollar holdings of foreigners taking the form of deposits, Government of Canada demand liabilities and treasury bills declined by \$53 million in the third quarter. This was the first decrease in aggregate in these holdings since the first quarter of 1963. Declines of \$37 million and \$16 million in deposit liabilities and non-resident holdings of Canadian treasury bills respectively, accounted for all the decrease as demand liabilities of the Government remained unchanged in the quarter. Three-fifths of the total net liquidation of foreign owned Canadian dollar holdings was accounted for by the United States. Residents of overseas countries other than the United Kingdom also reduced their holdings significantly. With the \$16 million fall in the non-resident owned holdings of Canadian treasury bills, total holdings which had reached \$57 million at the end of June declined to \$41 million at the end of September.

As is quite often the case the largest group of capital movements shown separately in the supplementary statement covering "Other Capital Movements" was the net change in bank balances and other short-term funds abroad (excluding official reserves). The outflow of \$160 million in the third quarter raised holdings in these balances to \$1.4 billion.

The Royal Commission on Banking and Finance has referred in its Report (page 138) to the substantial foreign currency deposit business of the Canadian banks with residents of Canada, and has described the technique which has been developed under which holders of Canadian dollars may in effect acquire short-term foreign currency investments through the banking system without incurring exchange risk. Most of the outflow in the third quarter reflected "swap deposits" of this nature.

Composition of "Other Capital Movements" (A minus sign indicates an outflow of capital from Canada)

Transactions with all countries	1963				1964		
	I Q	II Q	III Q	IV Q	I Q	II Q	III Q
	millions of dollars						
Bank balances and other short-term funds abroad (excluding official reserves)	- 62	- 81	- 137	25	154	- 125	- 160
Canadian commercial paper	- 39	15	- 11	12	27	- 19	- 19
Canadian finance paper	9	- 1	12	32	67	83	7
Canadian finance company obligations, n.i.e. ..	- 4	26	14	33	32	35	- 3
All other transactions(1)	55	129	8	41	28	124	- 26
Total (Item D 17)	- 41	88	- 114	143	308	98	- 201

(1) Includes changes in loans and accounts receivable and payable, and also balancing item representing difference between direct measurements of current and capital accounts.

Note: The content of this statement has been changed through the elimination of capital movements in long-term forms.

Capital flows of a money market character, apart from Canadian treasury bills, led to an outflow of \$15 million in the quarter under review, a swing of \$114 million from the inflow of \$99 million in the previous quarter. Declines in the rate of increase of non-resident holdings of Canadian finance company paper and other obligations were entirely responsible for the change. These rose on balance by \$4 million, a negligible amount compared with the inflows of \$99 million and \$118 million in the first and second quarters of 1964. Transactions in Canadian commercial paper continued at the same level in both the second and third quarters resulting in an outflow of \$19 million in each.

All other movements gave rise to a capital outflow of \$26 million in the third quarter, following an inflow of \$124 million in the previous period.

Official Holdings of Gold and Foreign Exchange

Canada's external reserves rose again in the third quarter of 1964. The increase in official holdings of gold and United States dollars amounted to \$98 million in Canadian funds while corresponding holdings of sterling were unchanged. In the same period Canada's net International Monetary Fund position improved by \$59 million.

United States Dollar in Canada

Period		High	Low	Close	Noon average
Canadian cents					
1963	II Q	107.97	107.59	107.81	107.74
	III Q	108.57	107.63	107.78	108.08
	IV Q	108.09	107.72	108.06	107.83
1964	I Q	108.09	107.94	108.06	108.02
	II Q	108.25	108.03	108.13	108.09
	III Q	108.22	107.50	107.50	107.87

Official holdings of gold and United States funds expressed in terms of United States dollars, amounted to \$2,625 million at September 30, 1964. Canada's net IMF position - the cumulative measure of net resources provided by Canada to the Fund - was equivalent to \$80 million in United States dollars. This improvement of \$55 million during the quarter was effected mainly by repurchases by Canada of Canadian dollars equivalent to \$50 million in United States funds. For technical reasons these repurchases were carried out half in Netherlands guilders and half in Deutsche marks, which were purchased with United States dollars by Canada from the United States. Canada's net International Monetary Fund position improved by a further \$5 million as a result of a drawing in Canadian funds by another country.

Canada's present quota in the Fund is \$550 million and Canada was obligated in due course to reduce the Fund's holdings of Canadian dollars from their level of \$470 million at the end of the third quarter to 75 per cent of the quota. This involved a further repayment of somewhat more than \$57 million in terms of United States funds, to restore Canada's net International Monetary Fund position to \$137.5 million - a transaction carried out on October 31.

During the course of the quarter, the Bank of Canada, in conjunction with a number of other central banks, agreed to place an amount of United States dollars on deposit with the Bank of England if the latter so requested. This arrangement to place a short-term credit facility at the disposal of the United Kingdom was entered into in order to help protect sterling against speculative pressures that might arise. It has been announced that some use was made by the Bank of England of this facility before the British election. This arrangement had no effect on the statistics presented in this report of Canada's balance of payments in the third quarter.

Changes in Presentation

The tables in this report reflect several changes in presentation which have been made to improve their usefulness. The principal effect is to identify, within the main table, all movements of capital in long-term forms. This has involved the transfer of two components previously included in item D17, "Other capital movements". Canada's subscriptions to international investment agencies (International Bank for Reconstruction and Development, the International Development Association, and the International Finance Corporation) are now shown under the block title, "Loans and Capital Subscriptions by Government of Canada" as a part of item D9 which is described as "Advances etc.". Detail of these subscriptions will be given, where appropriate, in the text or in supplementary statements. A second component previously included in item D17 "long-term capital transactions n.i.e.", will henceforth appear in the main table as item D13.

A new item, D11, has been created with the title, "Columbia River Treaty, net", which is the subject of comment elsewhere in this report. Until 1958 item D11 was used to cover repayments to Canada of war loans; in future presentations of the earlier period these transactions will be included in item D10 with repayments to Canada of other intergovernmental loans. Item D13 originally covered subscriptions in gold and United States dollars to international financial agencies but these transactions were transferred to other items some time ago and are now components of items D9 and H2.

Totals now appear in Section E for the net capital movement in long-term forms (items D1 to D13) and in short-term forms (items D14 to D17). Other minor changes have been made in the designation of some items.

Official Holdings of Gold and United States Dollars and Related Items

End of period		Official holdings of gold and United States dollars	Net International Monetary Fund position	Other special international financial assistance	Total of foregoing items
millions of United States dollars					
1963	II Q	2,692	- 138	-	2,554
	III Q	2,568	- 58	-	2,510
	IV Q	2,595	- 58	-	2,537
1964	I Q	2,466	20	-	2,486
	II Q	2,534	25	-	2,559
	III Q	2,625	80	-	2,705
	July	2,534	25	-	2,559
	August	2,576	30	-	2,606
	September	2,625	80	-	2,705

This table does not include holdings by the Government of Canada of medium-term non-marketable securities of the United States Government acquired in connection with the Columbia River Treaty arrangements.

International Monetary Fund: Canada's Position

Selected transactions				End of period		
	Net drawings of foreign currencies by Canada	Net drawings (-) of Canadian dollars by other countries	Sales of Canadian dollars to IMF for gold	IMF holdings of Canadian dollars(1)	Canada's gross IMF position(2)	Canada's net IMF position(3)
millions of United States dollars						
1947-1961	-	- 100	25	338	762	212
1962	300	50	-	688	412	- 138
1963	III Q - 80	-	-	608	492	- 58
1964	I Q - 59	- 20	-	530	570	20
	II Q -	- 5	-	525	575	25
	III Q - 50	- 5	-	470	630	80

- (1) Apart from the transactions shown, these holdings reflect mainly Canada's quota payments made in Canadian dollars. Since members are obligated to maintain the gold value of the IMF's holdings of their currencies, there have also been adjustment payments between the IMF and Canada in Canadian dollars, arising from changes in the exchange rate, which are not reflected because the series are shown in United States dollar equivalents.
- (2) This "total tranche position" is a measure of Canada's drawing potential, i.e. the amount Canada could draw without raising the IMF's holdings of Canadian dollars beyond 200 per cent of quota.
- (3) This is a cumulative measure of the net resources provided by Canada to the IMF. The Canadian dollar equivalent of the change appears as item H2 in the balance of payments statement.

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Note: Data for 1964 are preliminary and data for 1963 are subject to revision

No.		1962		1963	
		III	IV	I	II
		millions of dollars			
A	Current receipts:				
1	Merchandise exports (adjusted)	1,632	1,724	1,486	1,776
3	Gold production available for export	38	36	41	38
4	Travel expenditures	297	92	50	132
5	Interest and dividends	41	83	42	54
6	Freight and shipping	136	135	117	140
7	Inheritances and immigrants' funds	42	31	27	38
11	All other current receipts	113	114	111	113
12	Total current receipts	2,299	2,215	1,874	2,291
B	Current payments:				
1	Merchandise imports (adjusted)	1,559	1,582	1,412	1,702
4	Travel expenditures	197	100	117	158
5	Interest and dividends	168	233	200	198
6	Freight and shipping	160	154	128	161
7	Inheritances and emigrants' funds	49	52	38	42
9	Official contributions	6	9	15	17
11	All other current payments	204	212	212	217
12	Total current payments	2,343	2,342	2,122	2,495
C	Current account balance:				
1	Merchandise trade	+ 73	+ 142	+ 74	+ 74
2	Other transactions, excluding B 9	- 111	- 260	- 307	- 261
3	Official contributions	- 6	- 9	- 15	- 17
4	Total	- 44	- 127	- 248	- 204
D	Capital account:				
	Direct investment:				
1	Direct investment in Canada	+ 118	+ 192	+ 67	+ 50
2	Direct investment abroad	- 24	- 39	- 22	- 37
	Canadian securities:				
3.1	Trade in outstanding bonds and debentures	+ 39	+ 24	+ 23	+ 27
3.2	Trade in outstanding common and preference stocks	- 26	- 32	- 56	- 44
4	New issues	+ 88	+ 387	+ 408	+ 394
5	Retirements	- 53	- 120	- 52	- 173
6,7,8	Foreign securities	- 5	- 2	+ 4	+ 24
	Loans and capital subscriptions by Government of Canada:				
9	Advances, etc.	- 14	- 8	-	-
10	Repayments to Canada	+ 68	+ 51	-	+ 6
11	Columbia River Treaty, net	-	-	-	-
13	Long-term capital transactions n.i.e.	+ 23	+ 7	+ 3	- 38
	Change in Canadian dollar holdings of foreigners:				
14.1	Deposits	- 47	+ 92	- 29	+ 38
14.2	Government of Canada demand liabilities	+ 4	- 3	-	- 3
14.3	Canadian treasury bills	- 3	- 61	+ 9	- 17
17	Other capital movements	+ 562	+ 117	- 41	+ 88
E	Net capital movement (excluding monetary items shown below) in:				
1	Long-term forms (D1 to D13)	+ 214	+ 460	+ 375	+ 209
2	Short-term forms (D14 to D17)	+ 516	+ 145	- 61	+ 106
3	Total	+ 730	+ 605	+ 314	+ 315
H = C+E	Official monetary movements in the form of:				
1	Change in official holdings of gold and foreign exchange	+ 686	+ 101	+ 66	+ 111
2	Change in net International Monetary Fund position	-	-	-	-
3	Other special international financial assistance	-	+ 377	-	-

Notes: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in

B 1) the annual reports on "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income,

B 11) Insurance transactions, and business services.

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Note: Data for 1964 are preliminary and data for 1963 are subject to revision

1963		1964			Annual totals		Four quarters ended		No.
III	IV	I	II	III	1961	1962	1963 Sept. 30, 1964		
millions of dollars									
1,806	2,014	1,730	2,197	2,184	5,839	6,380	7,082	8,125	A
36	39	33	41	35	162	155	154	148	1
325	102	59	138	353	482	562	609	652	3
42	85	58	55	47	209	202	223	245	4
146	157	135	167	170	486	509	560	629	5
48	36	31	42	48	103	124	149	157	6
113	112	114	116	116	403	451	449	458	7
2,516	2,545	2,160	2,756	2,953	7,734	8,383	9,226	10,414	11
									12
1,655	1,810	1,697	2,048	1,825	5,716	6,203	6,579	7,380	B
207	107	155	187	233	642	605	589	682	1
184	287	231	210	204	770	794	869	932	4
177	175	140	188	191	568	595	641	694	5
49	53	40	46	52	174	175	182	191	6
15	14	12	16	22	56	36	61	64	7
213	220	228	217	207	790	849	862	872	9
2,500	2,666	2,503	2,912	2,734	8,716	9,257	9,783	10,815	11
									12
+ 151	+ 204	+ 33	+ 149	+ 359	+ 173	+ 177	+ 503	+ 745	C
- 120	- 311	- 364	- 289	- 118	- 1,099	- 1,015	- 999	- 1,082	1
- 15	- 14	- 12	- 16	- 22	- 56	- 36	- 61	- 64	2
+ 16	- 121	- 343	- 156	+ 219	- 982	- 874	- 557	- 401	3
									4
+ 60	+ 63	+ 60	+ 60	+ 35	+ 520	+ 495	+ 240	+ 218	D
- 21	- 30	- 40	- 40	+ 10	- 75	- 109	- 110	- 100	1
- 7	- 4	+ 4	+ 15	+ 36	+ 61	+ 64	+ 39	+ 51	2
- 27	- 42	- 44	- 8	- 10	+ 39	- 116	- 169	- 104	3.1
+ 100	+ 66	+ 146	+ 270	+ 109	+ 538	+ 728	+ 968	+ 591	3.2
- 40	- 70	- 103	- 89	- 51	- 300	- 320	- 335	- 313	4
- 3	- 2	- 5	- 36	- 5	- 34	- 65	+ 23	- 48	5
- 8	- 10	- 2	-	-	- 8	- 22	- 18	- 12	6,7,8
-	+ 19	+ 4	+ 2	+ 1	+ 37	+ 129	+ 25	+ 26	9
-	-	-	-	+ 54	-	-	-	+ 54	10
- 21	+ 6	- 50	- 51	+ 13	+ 132	- 116	- 50	- 82	11
- 12	+ 43	+ 19	- 9	- 37	+ 34	- 13	+ 40	+ 16	13
-	+ 4	-	- 3	-	- 2	- 4	+ 1	+ 1	14.1
+ 18	- 37	+ 4	+ 14	- 16	- 58	+ 4	- 27	- 35	14.2
- 114	+ 143	+ 308	+ 98	- 201	+ 388	+ 374	+ 76	+ 348	14.3
									17
+ 33	- 4	- 30	+ 123	+ 192	+ 910	+ 668	+ 613	+ 281	E
- 108	+ 153	+ 331	+ 100	- 254	+ 362	+ 361	+ 90	+ 330	1
- 75	+ 149	+ 301	+ 223	- 62	+ 1,272	+ 1,029	+ 703	+ 611	2
									3
- 145	+ 28	- 127	+ 62	+ 98	+ 229	+ 537	+ 60	+ 61	H = C+E
+ 86	-	+ 85	+ 5	+ 59	+ 61	- 378	+ 86	+ 149	1
	-	-	-	-	-	4	-	-	2
									3

Notes: D A minus sign indicates an outflow of capital from Canada.

D 1.2 Exclusive of undistributed profits.

D 17 This item includes mainly changes in private and chartered bank holdings of exchange, international money market transactions, loans, and changes in open account commercial indebtedness. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.

H 3 A minus sign indicates a receipt by Canada.

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CANADA. BUREAU OF STATISTICS

**QUARTERLY ESTIMATES OF THE CANADIAN
BALANCE OF INTERNATIONAL PAYMENTS
FOURTH QUARTER 1964**

Contains preliminary estimates for 1964
and statistics of Canada's international
investment position at the end of 1962.

Published by Authority of
The Minister of Trade and Commerce

DOMINION BUREAU OF STATISTICS
National Accounts and Balance of
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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS
FOURTH QUARTER 1964 AND PRELIMINARY ESTIMATES FOR THE YEAR 1964

Canada's current deficit from transactions in goods and services with other countries was reduced to a preliminary estimate of \$453 million in 1964 from \$557 million in 1963, with the export balance from merchandise trade rising from \$503 million to \$700 million, a record size for a peacetime year. At the same time the deficit from non-merchandise transactions, mainly because of the re-emergence of a deficit on travel account, rose by 9 per cent to \$1,153 million, a level which has only been exceeded in 1961. The reduction in the current deficit occurred in the second and third quarters with the larger balances on merchandise trade in these periods, when receipts from grain sales to the U.S.S.R. were still substantial.

Summary statement

	1962	1963	1964	1963	1964				
				IV Q	I Q	II Q	III Q	IV Q	
	millions of dollars								
Merchandise trade balance	+ 177	+ 503	+ 700	+ 204	+ 33	+ 149	+ 356		+ 162
Deficit on non-merchandise transactions	- 1,051	- 1,060	- 1,153	- 325	- 376	- 305	- 141		- 331
Current account balance	- 874	- 557	- 453	- 121	- 343	- 156	+ 215		- 169
Capital movements(1)	+ 1,029	+ 703	+ 816	+ 149	+ 301	+ 224	- 59		+ 350
Long-term forms	+ 668	+ 613	+ 727(3)	- 4	- 37	+ 116	+ 171(3)		+ 477
Short-term forms	+ 361	+ 90	+ 89	+ 153	+ 338	+ 108	- 230		- 127
Change in official holdings of gold, foreign exchange, and net balance with International Monetary Fund(2) ..	+ 155	+ 146	+ 363	+ 28	- 42	+ 68	+ 156		+ 181

(1) Excluding change in official exchange holdings.

(2) Including also special international financial assistance.

(3) Including net receipts of \$54 million under the Columbia River Treaty arrangements.

The impressive rise in merchandise exports of 16 per cent was widely distributed as to commodities and destinations. Massive sales of wheat, featured by sales to the U.S.S.R. and other Communist countries, constituted a special element in both the totals in 1963 and 1964 but also in further increases in these shipments in 1964. Large expansions in exports also occurred in most of the major export staples produced by the forest and mineral industries, both to United States and overseas destinations. Again highly significant elements of the increases were in the sector of manufactured goods. While imports also rose rapidly in 1964, the rate of increase, over 14 per cent, has been less than with exports even though Canadian incomes were also expanding as were investment in Canada and the level of business inventories.

In much of 1964 the external environment was favourable to Canadian exports with rising activity in the United States and in other leading markets. But before the end of the year there were interruptions to rising trends in some overseas economies. In the same period a change in the position of sterling was a new factor leading to a less favourable background. And the passage of the Interest Equalization Tax legislation in the United States in the summer with the granting of the exemptions for Canadian new issues had effects upon the timing of capital flows. Interruptions to activity in the automobile industry initially arising from industrial disputes in the United States also had effects upon the balance of payments in the final quarter.

The deficit in Canada's current transactions on goods and services with foreign countries declined nearly 19 per cent from \$557 million in 1963 to \$453 million in 1964. This was the smallest deficit since 1954, when it was estimated at \$432 million. As in several preceding years, the reduction in the deficit originated in merchandise trade. Since the emergence of an export balance of

\$173 million in 1961, the annual surpluses increased to \$503 million in 1963 and to \$700 million in 1964, with the extraordinary sale of wheat and flour to the U.S.S.R. being a major contributor in the two most recent years. The 1964 deficit on non-merchandise transactions stood a shade below the peak imbalance of \$1,155 million in 1961. The improvement in the current account balance in 1964 occurred entirely in transactions with overseas countries, with the surplus nearly doubling during the year to \$1,206 million, which is the highest in the postwar years. On the other hand the deficit on current transactions with the United States widened 40 per cent to \$1,659 million, a shade above the earlier peak in 1956.

The Trade of Canada totals have been adjusted for balance of payments use. The effect of these adjustments has been to reduce the size of the export balance shown in the Trade of Canada by \$111 million in 1964. This has mainly been through the deduction from exports of receipts for wheat and military aircraft shown in the balance of payments series in the previous year, and from additions to recorded imports to account for prepayments for military equipment.

Larger Export Balance on Merchandise Trade

Merchandise exports (after adjustment for balance of payments purposes) increased \$1,156 million or 16 per cent from \$7,082 million to \$8,238 million in 1964. The rise in imports (after adjustment) was estimated to be \$959 million or more than 14 per cent from \$6,579 million to \$7,538 million, also a much higher rise than in the preceding year. Close to 10 per cent of the export gain originated from the allocation between 1963 and 1964 of the shipments of wheat and flour on Russian account, including deliveries to Cuba. The value of the shipments amounted to nearly \$200 million in 1963 and more than \$300 million in 1964. Other increases were fairly broadly spread over most commodity groups. Shipment of iron ores and concentrates gained \$85 million or 30 per cent to \$356 million. Non-ferrous metal ores and alloys expanded \$155 million or over 15 per cent to about \$1,100 million. Zinc, nickel and copper were the principal contributors for this large increase. Exports of newsprint and wood pulp recorded increases of \$75 million and \$55 million, respectively; and those of aircraft (after allowance for progress payments and deliveries) and parts less than \$60 million. Increases in fabricated steel materials, cars and trucks, and motor vehicle parts were each approximately \$45 million. Gains of between \$25 million and \$30 million each were indicated in the exports of fish, barley, petroleum, industrial machinery and agricultural machinery; and shipments of softwood lumber and natural gas each increased more than \$20 million. Exports of diverse commodities, including whisky, tobacco, asbestos, sulphur, plywood, chemicals, synthetic rubber and plastic materials, and heating, electrical and measuring equipment rose less substantially. For the fifth successive year, shipments of uranium decreased -- over \$60 million to \$75 million in 1964.

On the basis of detailed import statistics published so far for the first 9 months of 1964, increases in imports were dispersed over most commodity groups. Accounting for nearly one-fifth each, industrial machinery and motor vehicles and parts recorded the largest individual increases in imports. Although they also rose, imports of fabricated metal materials (led by iron and steel and alloys) did not quite reach the totals of either machinery or motor vehicles in the 9 months of 1964; and the share of the overall import rise was short of 15 per cent. Fairly substantial increases took place in the imports of metal ores, crude and fabricated textile materials, general equipment and tools, tractors and agricultural machinery, chemicals, personal and household furnishings and other consumer goods.

The prices of Canadian exports and imports were both on the average moderately higher in 1964 than in the preceding year. Export prices were on the increase each quarter of 1964, while import prices appeared to have been moving downward from a peak in the second quarter.

Deficit on Services and Other Non-merchandise Items

At \$1,153 million, the 1964 deficit on non-merchandise transactions was roughly 9 per cent above that of 1963 and almost identical with the imbalance of \$1,155 million in 1961. About three-fourths of the widening in the "invisible" deficit was ascribable to the travel account. A surplus of \$20 million in 1963 changed to a deficit of \$52 million in 1964, which compared with net payments of \$43 million in 1962. Interest and dividends, gold production available for export, official contributions and business services accounted for smaller shares of the increase in non-merchandise deficit in 1964.

A one-third decline in net receipts on travel transactions with the United States from \$157 million to \$106 million and a 15 per cent rise from \$137 million to \$158 million in the deficit with overseas countries brought about the turn-around of \$72 million in the travel balance. Expenditures in Canada by United States visitors rose 7 per cent in 1964 to the peak total on record of \$589 million.

Summary of Current Transactions with the United States, United Kingdom and Other Countries
1963 and 1964, and Changes Between the Periods

	1963	1964	Change	1963	1964	Change
	millions of dollars					
<u>Fourth quarter</u>	<u>All countries</u>			<u>United States</u>		
Merchandise exports (adjusted)	2,014	2,128	+ 114	1,035	1,169	+ 134
Merchandise imports (adjusted)	1,810	1,966	+ 156	1,185	1,331	+ 146
Balance on merchandise trade	+ 204	+ 162	- 42	- 150	- 162	- 12
Other current receipts	531	605	+ 74	341	360	+ 19
Other current payments	856	936	+ 80	609	674	+ 65
Balance on non-merchandise transactions ...	- 325	- 331	- 6	- 268	- 314	- 46
Total receipts	2,545	2,733	+ 188	1,376	1,529	+ 153
Total payments	2,666	2,902	+ 236	1,794	2,005	+ 211
Current account balance	- 121	- 169	- 48	- 418	- 476	- 58
<u>Calendar year</u>						
Merchandise exports (adjusted)	7,082	8,238	+ 1,156	3,970	4,397	+ 427
Merchandise imports (adjusted)	6,579	7,538	+ 959	4,458	5,202	+ 744
Balance on merchandise trade	+ 503	+ 700	+ 197	- 488	- 805	- 317
Other current receipts	2,144	2,368	+ 224	1,507	1,589	+ 82
Other current payments	3,204	3,521	+ 317	2,202	2,443	+ 241
Balance on non-merchandise transactions ...	- 1,060	- 1,153	- 93	- 695	- 854	- 159
Total receipts	9,226	10,606	+ 1,380	5,477	5,986	+ 509
Total payments	9,783	11,059	+ 1,276	6,660	7,645	+ 985
Current account balance	- 557	- 453	+ 104	- 1,183	- 1,659	- 476
<u>Fourth quarter</u>	<u>United Kingdom</u>			<u>Other Countries</u>		
Merchandise exports (adjusted)	266	305	+ 39	713	654	- 59
Merchandise imports (adjusted)	143	144	+ 1	482	491	+ 9
Balance on merchandise trade	+ 123	+ 161	+ 38	+ 231	+ 163	- 68
Other current receipts	86	131	+ 45	104	114	+ 10
Other current payments	89	96	+ 7	158	166	+ 8
Balance on non-merchandise transactions ...	- 3	+ 35	+ 38	- 54	- 52	+ 2
Total receipts	352	436	+ 84	817	768	- 49
Total payments	232	240	+ 8	640	657	- 17
Current account balance	+ 120	+ 196	+ 76	+ 177	+ 111	- 66
<u>Calendar year</u>						
Merchandise exports (adjusted)	1,017	1,218	+ 201	2,095	2,623	+ 528
Merchandise imports (adjusted)	521	584	+ 63	1,600	1,752	+ 152
Balance on merchandise trade	+ 496	+ 634	+ 138	+ 495	+ 871	+ 376
Other current receipts	279	355	+ 76	358	424	+ 66
Other current payments	375	417	+ 42	627	661	+ 34
Balance on non-merchandise transactions ...	- 96	- 62	+ 34	- 269	- 237	+ 32
Total receipts	1,296	1,573	+ 277	2,453	3,047	+ 594
Total payments	896	1,001	+ 105	2,227	2,413	+ 186
Current account balance	+ 400	+ 572	+ 172	+ 226	+ 634	+ 408

Canadian travel payments to the United States, after declining in the preceding two years, rose 23 per cent to another high point of \$483 million. Receipts from overseas visitors increased to \$72

million, while Canadian travel expenditures overseas expanded \$33 million or 17 per cent to \$230 million in 1964. In consequence the travel deficit with overseas countries, which stood practically unchanged at about \$136 million in the three years 1961 to 1963, widened 15 percent to \$158 million. The introduction in 1964 of reduced air fares for overseas travel covering two to three weeks' duration was undoubtedly a factor in the rise in the volume of travel abroad.

Both the receipts and payments of interest and dividends advanced to record levels in 1964, the former by \$64 million to \$287 million and the payments by \$91 million to \$960 million. Included in these unusually large changes were extraordinary dividend transfers in the final quarter of 1964. Contributing to the enhanced deficit of \$673 million on interest and dividends was the deferment by the British authorities of the year end payment of regular interest of some \$20 million on the 1946 loan. Large non-recurring dividend receipts in the last quarter of the year accounted for most of the increase. Dividends received on direct investment abroad were higher as well in some other quarters of 1964, particularly in the first. Returns on foreign stocks held by Canadian portfolio investors were also moderately higher in 1964.

At \$960 million, payments of interest and dividends stood at 10 percent above 1963 and were roughly twice as large as the total for 1955. About one-fourth of the increase of \$91 million originated in interest payments. Large sales of government and corporation bonds to non-residents in the first half of 1963 and less sizable sales in the same period of 1964 contributed to the rise.

Major Items in the Balance on Non-Merchandise Transactions

	1962	1963	1964	Change in 1964
millions of dollars				
Gold production available for export	+ 155	+ 154	+ 144	- 10
Travel	- 43	+ 20	- 52	- 72
Interest and dividends	- 592	- 646	- 673	- 27
Freight and shipping	- 86	- 81	- 61	+ 20
Inheritances and migrants' funds	- 51	- 33	- 25	+ 8
Official contributions	- 36	- 61	- 68	- 7
All other current transactions	- 398	- 413	- 418	- 5
Balance on non-merchandise transactions	- 1,151	- 1,060	- 1,153	- 93

extraordinary dividend transfers in the final quarter of 1964. Contributing to the enhanced deficit of \$673 million on interest and dividends was the deferment by the British authorities of the year end payment of regular interest of some \$20 million on the 1946 loan. Large non-recurring dividend receipts

Travel Expenditures

	1961	1962	1963	1964	Change in 1964
millions of dollars					
Receipts:					
United States	435	512	549	589	+ 40
Overseas	47	50	60	72	+ 12
All countries	482	562	609	661	+ 52
Payments:					
United States	459	419	392	483	+ 91
Overseas	183	186	197	230	+ 33
All countries	642	605	589	713	+ 124
Balance:					
United States	- 24	+ 93	+ 157	+ 106	- 51
Overseas	- 136	- 136	- 137	- 158	- 21
All countries	- 160	- 43	+ 20	- 52	- 72

Approximately 70 per cent of the \$69 million increase in dividend payments was concentrated in the first and final quarters of 1964. Larger transfers to the United States of dividends on direct investment may have occurred in the first quarter to qualify for lower tax rates in effect in the United States at the beginning of the year. The effect of an unusually large dividend payment by a subsidiary in Canada in the last quarter was in part offset by an absence of transfer by some others that normally paid in this period of the year. The progress of capital investment programmes in Canada may have caused the retention of earnings and tax considerations in the United States may have again had some effect.

With rising disbursements under Canada's international economic aid programme, official contri-

Interest and Dividends: Payments

Period		Total	Interest	Dividends
millions of dollars				
1962		794	284	510
1963		869	324	545
1964		960	346	614
1963	I Q	200	70	130
	II Q	198	90	108
	III Q	184	70	114
	IV Q	287	94	193
1964	I Q	231	78	153
	II Q	210	95	115
	III Q	202	74	128
	IV Q	317	99	218

less substantially. Freight payments for imports brought in foreign vessels, inland freight in the United States on imports and expenditures abroad of Canadian ships contributed to the increase in payments. A 20 per cent gain in 1964 in the number of immigrants and higher per capita funds of immigrants arriving from areas such as the United States combined to reduce the deficit on migrants' funds and inheritances from \$33 million to \$25 million.

Miscellaneous Current Transactions

	Receipts		Payments	
	1963	1964	1963	1964
millions of dollars				
Government, excluding official contributions ...	126	130	168	174
Personal and institutional remittances	26	28	94	92
Miscellaneous income	83	89	160	159
Business services	214	221	440	461
Total	449	468	862	886
Balance			- 413	- 418

(referred to earlier in the text) contributed appreciably to changes in the non-merchandise balances with the United States and the United Kingdom. The export balance with the latter expanded more than 30 per cent; but in the case of the remaining countries (outside the Sterling area and the other OECD group), the completion of grain deliveries on Russian account earlier in the year brought about a sharp reduction in the merchandise surplus between the fourth quarters of 1963 and 1964, particularly with Eastern European countries.

Transactions by Areas

The traditional pattern of recent years in the distribution of Canada's deficit on current transactions in goods and services was strongly emphasized in 1964. The current deficit with the United States deepened 40 per cent from \$1,183 million in 1963 to \$1,659 million in 1964, while the surplus with overseas countries nearly doubled from \$626 million to \$1,206 million.

butions increased \$7 million to \$68 million in 1964, which was the highest total in recent years, second only to 1959. Small increases in deficits on business services and on government account (other than official contributions) were in part offset by a modest reduction in net payments on miscellaneous income and personal and institutional remittances. The deficit for miscellaneous current transactions widened \$5 million to \$418 million.

Freight and shipping services and inheritances and migrants' funds were the two accounts whose deficits were lower in 1964. The deficit for the former was reduced \$20 million to \$61 million. With the rising volume of merchandise trade, both receipts and payments for freight and shipping reached record high levels. Receipts expanded 15 per cent to \$642 million, while payments increased over 9 per cent to \$703 million, with all elements of the account contributing. Inland freight earnings on Canadian exports were up noticeably in 1964, and freight earnings of Canadian-operated vessels and expenditures of foreign vessels in Canada increased

Developments in the Fourth Quarter

Canada's current account deficit increased \$48 million, or nearly 40 per cent, from \$121 million in the fourth quarter of 1963 to \$169 million in the final quarter of 1964. In the process, total receipts rose 7 per cent from \$2,545 million to \$2,733 million, while total payments increased almost 9 per cent from \$2,666 million to \$2,902 million. There was a 20 per cent reduction in the export balance from merchandise trade together with a slight increase in the non-merchandise deficit over the previous year.

Bilaterally, Canada's current account balances improved with the United Kingdom and the Rest of the Sterling Area, but worsened with the United States and the remaining countries. Some unusual transfers of dividends offset by an absence of some which usually occur in the fourth quarter

Total receipts from the sale of current goods and services to the United States amounted in 1964 to \$5,986 million, up \$509 million or more than 9 per cent over \$5,477 million in 1963. Total payments by Canada expanded \$985 million, or over 14 per cent, from \$6,660 million to \$7,645 million.

Current Account Balances with
Principal Countries and Areas

	1962	1963	1964	Change in 1964
millions of dollars				
United States	- 1,122	- 1,183	- 1,659	- 476
Overseas:	+ 248	+ 626	+ 1,206	+ 580
United Kingdom	+ 218	+ 400	+ 572	+ 172
Other Sterling Area	+ 16	- 31	+ 87	+ 118
Other OECD countries	- 89	- 77	- 64	+ 13
Other countries	+ 103	+ 334	+ 611	+ 277
All countries	- 874	- 557	- 453	+ 104

In consequence, Canada's deficit on current account with the United States rose \$476 million to \$1,659 million in 1964. Roughly two-thirds of this increase was derived from commodity trade. Merchandise exports to the United States gained nearly 11 per cent from \$3,970 million to \$4,397 million, but accounted for 53 per cent of total Canadian exports, as against 56 per cent in 1963. Nearly 80 per cent of the increase in exports took the form of fabricated materials and manufactured goods. Imports from the United States expanded \$744 million, or more than 16 per cent, to a total of \$5,202 million, but relatively its share of all imports changed slightly from 68 per cent in 1963 to 69 per cent in the year following.

Net payments on non-merchandise transactions grew 23 per cent or \$159 million from \$695 million to \$854 million, as a result of an increase in payments three times that of receipts. Deficits on nearly all service items increased in 1964, and the value of gold production available for export declined \$10 million. Travel and interest and dividends were responsible for three-fourths of the deterioration in the deficit on "invisibles". The developments in travel transactions with the United States, and the widening in the deficit on interest and dividends have been commented on earlier. Increments to other net service payments were less sizable; and the deficit on migrants' funds and inheritances was the one exception that narrowed slightly.

In current transactions with the United Kingdom, the increase in receipts was more than 2-1/2 times that of payments. Total receipts advanced \$277 million or 21 per cent to \$1,573 million, while the rise in payments for goods and services was estimated at \$105 million, or more than 11 per cent, up to \$1,001 million in 1964. Canada's current surplus accordingly widened \$172 million, or 43 per cent, to \$572 million; and about four-fifths of the improvement was ascribable to merchandise trade. Merchandise exports to the United Kingdom expanded nearly 20 per cent from \$1,017 million to \$1,218 million, while imports rose 12 per cent from \$521 million to \$584 million. Fabricated materials accounted for approximately four-fifths of the export gain. The reduction in the non-merchandise deficit by about one-third was due in the main to the receipt in the fourth quarter of extraordinary dividends, although the surpluses on freight and shipping and on migrants' funds and inheritances were also moderately higher.

A gain of \$594 million, or 24 per cent, to \$3,047 million in total receipts from other countries offset by an 8 per cent increase in total payments to \$2,413 million, resulted in raising the surplus with this group from \$226 million to \$634 million in 1964. Some 90 per cent of the improvement in the current surplus arose from merchandise trade, and one-half, or about \$190 million, of this increase originated in Eastern European trade. Enlarged shipments of wheat and flour under the Russian contract (including deliveries to Cuba) accounted for well over \$100 million of the expansion in surplus. Another increase of about the same magnitude took place in the trade surplus with Rest of the Sterling Area, where exports to Australia alone were nearly \$50 million higher in 1964. Advances of over \$35 million and \$25 million were recorded in Canadian exports to Mainland China and Japan, respectively. The non-merchandise surplus with the residual group of other countries rose about \$20 million through higher net receipts for freight, shipping, interest, dividends and miscellaneous income and a lowered imbalance on personal remittances.

Canada's current account balance together with capital movements in long-term forms (described by some as the "basic" balance) produced \$274 million in 1964. There were also net receipts in 1963 but for each earlier year since 1956 these items led to net payments. The results of the last two years may be viewed in part as one aspect of the process of ebb and flow under which the extensive net receipts in the earlier period in short-term and reserve forms of capital as a group (which are the counterpart of the balance) were being restored.

The area distribution of these totals appears in a statement. Canada experienced during 1964 a

deficit of \$1,659 million on current account with the United States, an increase of \$476 million over the previous year. Canada received in the same period \$950 million net of capital in long-term forms from that country, which was \$111 million more than in 1963. If the production of new gold available for export, conventionally attributed to the United States, is excluded the net payments by Canada to the United States from these transactions amounted to \$853 million, compared with \$498 million in 1963. Because of the timing of capital flows, which is discussed later, and some seasonal concentration in the current deficit, this balance virtually all occurred in the first half of 1964. Capital flows in short-term forms between Canada and the United States also varied sharply over the year. The net receipt during the year as a whole was large but fell well short of the net payments arising from current transactions and capital movements in long-term forms. (A significant part of these "inflows" consisted of international banking operations and were offset by corresponding "outflows" to other parts of the world thus having no net effect on Canada's overall balance of payments.) In this sense Canada's transactions with the United States appear, on balance, again to have been a source of strength to the United States balance of payments in 1964, although as might be expected the impact varied from quarter to quarter.

With the United Kingdom and other overseas countries Canada earned a current account surplus of \$1,206 million during 1964, up sharply from \$626 million in 1963. Capital outflows in long-term forms in this period totalled \$223 million, roughly the same as in 1963. There were also large capital outflows in short-term forms from Canada to these countries. The pattern of transactions, particularly when compared on a quarter by quarter basis with 1963, is affected by a number of special factors, whose incidence is partly offsetting. In the last half of 1963 and through much of 1964 the current account surpluses were, of course, enlarged by special wheat transactions. And in the latter part of 1964 the balance of payments difficulties which were experienced by the United Kingdom did not leave the Canadian balance of payments unaffected -- the United Kingdom deficit on current account with Canada increased and in addition the balance of capital flows in long-term forms turned in Canada's favour.

Area Distribution of Current Account Balance and Capital Movements in Long-Term Forms

Area and period		Current account balance(1)	Capital movements in long-term forms	Total of foregoing items	Total of foregoing items excluding gold production available for export
millions of dollars					
<u>United States:</u>					
1961	Year	- 1,386	931	- 455	- 617
1962	"	- 1,122	668	- 454	- 609
1963	"	- 1,183	839	- 344	- 498
1964	"	- 1,659	950	- 709	- 853
1964	I Q	- 549	34	- 515	- 548
	II Q	- 512	212	- 300	- 341
	III Q	- 122	215	93	58
	IV Q	- 476	489	13	- 22
<u>United Kingdom and other overseas countries:</u>					
1961	Year	404	- 21	383	383
1962	"	248	-	248	248
1963	"	626	- 226	400	400
1964	"	1,206	- 223	983	983
1964	I Q	206	- 71	135	135
	II Q	356	- 96	260	260
	III Q	337	- 44	293	293
	IV Q	307	- 12	295	295

(1) Including gold production available for export (attributed to United States account).

Capital Movements

The net capital inflow into Canada (apart from the official monetary movements shown separately in the balance of payments statements) totalled \$816 million in 1964 compared with \$703 million in 1963.

Capital movements in long-term forms contributed \$727 million and \$613 million to these totals respectively, while capital movements taking short-term forms accounted for the remaining amounts of \$89 million and \$90 million.

Capital Movements

Summary	1963	1964	1963	1964				
			IV Q	I Q	II Q	III Q	IV Q	
millions of dollars								
Capital movements in long-term forms	+ 613	+ 727	- 4	- 37	+ 116	+ 171	+ 477	
Capital movements in short-term forms(1)	+ 90	+ 89	+ 153	+ 338	+ 108	- 236	- 127	
Balance on goods and services	- 557	- 453	- 121	- 343	- 156	+ 215	- 169	
Change in official holdings of gold, foreign exchange, and net balance with the International Monetary Fund	+ 146	+ 363	+ 28	- 42	+ 68	+ 156	+ 181	

(1) Excluding items in final line.

Although larger than in either 1962 or 1963 the capital inflow in long-term forms was smaller than in any of the six preceding years. More than half of the increase over 1963 arose from special transactions in connection with the Columbia River Treaty which brought in \$54 million. Transactions in portfolio securities produced, on balance, \$93 million more than in 1963, while transactions of a direct investment character produced \$55 million less. All other transactions in long-term forms yielded \$22 million more than in 1963.

These long-term flows may most usefully be reviewed in the perspective of their previous history. It will be recalled that an extended period of substantial inflows was interrupted in 1962 when Canada experienced a brief but severe exchange crisis generated by a variety of convergent influences. The small outflow of \$6 million of capital in long-term forms in the first half of 1962 which resulted was again succeeded by a period of substantial inflows. In the next three quarters this totalled \$1,049 million, and if allowance were made for new security issues sold but not delivered the figure would rise to \$1,471 million. Some special factors contributed. The Government of Canada had re-entered the United States capital market in 1962 for the first time in more than a decade, leading the way for the resumption of new issues there by other large Canadian borrowers. Substantial inflows occurred for the purchase by non-residents of major Canadian concerns. The extension of provincial utility enterprises gave rise to large demands for funds which were obtained in the United States market.

Capital Inflows in Long-Term Forms

Period		Actual inflow	Adjusted to reflect timing of security offerings
millions of dollars			
1962	Year	+ 668	+ 948
1963	"	+ 613	+ 407
1964	"	+ 727	+ 667
1963	I Q	+ 375	+ 493
	II Q	+ 209	- 33
	III Q	+ 33	- 29
	IV Q	- 4	- 24
1964	I Q	- 37	- 71
	II Q	+ 116	+ 63
	III Q	+ 171	+ 377
	IV Q	+ 477	+ 298

By the end of the first quarter of 1963 the spate of new issues abroad abated sharply, although deliveries continued to be substantial during the second quarter. A Presidential Message to the United States Congress proposing the introduction of an Interest Equalization Tax was delivered in July and the Canadian balance of payments reacted swiftly. Within twenty-four hours there was a greater loss of official holdings of gold and foreign exchange than in any similar period, even during the difficult days of the spring of 1962. The situation was soon eased by the proposal to exempt new Canadian issues, but uncertainties relating to the tax effectively deterred the sale of new Canadian issues in the United States market. Direct investment inflows also tended to decline, and in the five quarters, from the second of 1963 to the second of 1964

inclusive, net capital inflows in long-term forms produced only \$317 million. This amount was less by \$94 million than the net deliveries in this period of earlier sales of new issues.

The situation changed rapidly in the last half of 1964. Passage through the United States Congress of the legislation providing for the Interest Equalization Tax and the implementation of the exemption for Canadian new issues released the way for an accumulation of new issues. Capital inflows in long-term forms in the six-month period rose to \$648 million.

These large swings occurred in the balance of capital transactions in long-term forms under the influence of both domestic and external financial factors, but over the three-year period the net inward movement of \$2,008 million was less than 7 per cent above the corresponding net current account deficit of \$1,884 million. And in each year from 1957 to 1962 inclusive the inflows in long-term forms had fallen short of the deficits on current account.

The composition of capital movements in short-term forms differed between 1963 and 1964, the principal changes being larger outflows for the private holding of exchange and larger inflows, mainly in the early part of the year, from some types of Canadian money market transactions, and from loans and accounts receivable and payable.

DIRECT INVESTMENT The net inflow of foreign capital for direct investment in non-resident controlled enterprises in Canada continued to contract in 1964, amounting over the year to \$165 million. This compared with \$240 million in 1963. It was the lowest figure since 1949 and was nearly half a billion dollars below the peak inflow recorded in 1960.

The flows of long-term capital in connection with direct investment comprise several streams. Some of them are directed to new capital formation or arise from the consumption of capital. Others relate to purchase or sale of existing enterprises or assets. Yet others arise from changes in financial structure, the interchange of equity and debt financing, recourse to financial markets, shifts in financial working capital, etc. Many of these transactions tend to be large and irregular. They may be either inwards or outwards. At times their net impact may be largely in one direction or the other and may substantially obscure any underlying trend of more regular flows.

This was the case during 1964. On balance there were significant outflows particularly in the second quarter, covering takeovers and refinancing operations. Abstracting the various special transactions not related to current capital formation in Canada, the remaining quarterly flows appear to have been much less erratic and generally larger than the overall totals, with some tendency to increase. The changes in them from 1963 to 1964 appear to have been derived about equally from decreased inflows and increased outflows. In general the generation of cash flows from profits and from depreciation appears to have facilitated the repayment of somewhat larger amounts of capital than in the previous year.

Manufacturing enterprises and petroleum and natural gas continued to attract substantial capital into Canada. Mining gave rise to outflows but some of these arose from refinancing operations and were offset by the sale to non-residents of new corporate bonds. Merchandising was also affected by unusually large outflows occasioned by refinancing.

Geographically, the net inflows from the United States fell to less than two-thirds their 1963 level and from overseas countries other than the United Kingdom to about half. Net inflows attributable to the United Kingdom appear to have been larger than in 1963, but refinancing by some international corporations more than accounted for the change.

Preliminary estimates of the movement of capital for direct investment abroad indicate a net outflow of \$90 million compared with \$110 million in 1963. On balance, practically all of the net movement occurred in the first half of the year. Perhaps two-thirds of the 1964 net outflow was for manufacturing. There were substantial outflows to the United States and to overseas countries other than the United Kingdom. Inflows from the United Kingdom in the latter half of the year largely offset earlier outflows.

SECURITY TRANSACTIONS A capital inflow of \$619 million resulted from transactions in portfolio securities between Canada and all other countries during 1964. Although higher than for several years, the level has been exceeded on a number of earlier occasions. In part the increase over 1963 reflects the depressed level of external borrowing by Canadians during the extended period over which the Interest Equalization Tax legislation was under debate in the United States. On balance some \$60 million of the inflow in 1964 reflected a net reduction in bonds sold but

undelivered to residents of the United States. Other elements of the inflow covered new issues whose proceeds were used in whole or in part to repay advances from United States parent companies and were accordingly offset by outflows of direct investment capital to that country.

The enlarged inflow from security transactions greatly exceeded the inflow for direct investment in foreign-controlled enterprises - usually the major type of long-term capital inflow - which fell in 1964 to very low levels.

Net sales (+) or purchases (-) by Canadians	I	II	III	IV	Year 1964
millions of dollars					
Canadian securities:					
Outstanding - Bonds	+ 4	+ 14	+ 37	+ 22	+ 77
Stocks ...	- 44	- 8	- 5	- 40	- 97
New issues	+ 142	+ 313	+ 100	+ 498	+ 1,053
Retirements	- 109	- 96	- 58	- 94	- 357
Foreign securities:					
Outstanding issues	- 4	- 29	- 2	- 5	- 40
New issues	- 4	- 10	- 5	- 8	- 27
Retirements	+ 2	+ 3	+ 2	+ 3	+ 10
Total - All countries	- 13	+ 187	+ 69	+ 376	+ 619
United States	+ 6	+ 203	+ 56	+ 395	+ 660
United Kingdom	- 23	- 13	+ 3	- 20	- 53
Other countries	+ 4	- 3	+ 10	+ 1	+ 12

flecting mainly maturities of the heavy sales of previous years. The increase of \$22 million brought retirements to well over a third of a billion dollars.

The accompanying summary shows the composition of the transactions in 1964. The proceeds of new issues amounted to \$1,053 million, an increase of \$85 million over 1963. No Government of Canada new issues were denominated in foreign currencies or placed on foreign capital markets in 1964 in contrast to 1963 when the second instalment of a foreign currency issue negotiated in the United States in 1962 was delivered. Deliveries during the first half of 1964 included the final two instalments, each of U.S. \$50 million, of a U.S. \$300 million issue by a provincial authority, arranged and partially delivered in the previous year in connection with the take-over of private utilities. Many provinces and all the major municipalities borrowed to some extent in 1964 in the United States capital market.

There were wide disparities between the timing of offerings and of resulting capital flows. Offerings to non-residents of new issues of Canadian securities rose slightly in the first quarter of 1964 from the unusually low levels prevailing since the Interest Equalization Tax proposal was first submitted to the United States Congress in July of 1963. Borrowings by Canadian residents on the New York capital market increased during the year with most activity centered around the beginning of September when the legislation was promulgated and the anticipated exemption for Canadian new issues was established. Most of the offerings in the second quarter of 1964 were taken up in the same quarter, however there were substantial offerings in the third quarter which were not delivered until the fourth.

During 1964 as a whole offerings in the United States amounted to \$930 million, appreciably higher than in 1963 but somewhat lower than the 1962 total. Normally some part of the new issues placed by Canada in the United States is resold by the underwriters there to investors in other countries. There was a substantial reduction in the volume of new offerings in the latter half of the fourth quarter from the abnormally high levels in September and October. One of the factors accounting for this decrease was the decline in long-term interest rates in Canada in this period which narrowed the Canadian - United States interest rate differential. The undelivered balance of sales at the end of 1964 was only \$67 million, half the 1963 year-end figure and only one-fifth of the amount undelivered at the end of 1962.

The main types of transactions which contributed significantly to the increase in capital inflows between 1963 and 1964 were an increase of \$217 million in new borrowings by Canadian provincial and municipal governments and corporations and a reduction of \$72 million in the outflow to repurchase outstanding Canadian equities. The net inflow for the purchase of outstanding Canadian bonds doubled to \$77 million. Major changes having the effect of reducing the increase in the net capital inflow were the decline of \$133 million in new Government of Canada issues sold abroad and a swing of \$80 million in all transactions in foreign securities from a net sales balance of \$23 million in 1963 to a net purchase balance of \$57 million in 1964. Retirements of Canadian bonds held abroad rose for the seventh successive year re-

New Issues of Canadian Bonds Sold to
United States Residents

Period		Offerings	Deliveries	Un- delivered(1)
millions of dollars				
1962	Year	957	677	333
1963	"	698	904	127
1964	"	930	990	67
1963	I Q	512	394	451
	II Q	126	368	209
	III Q	30	92	147
	IV Q	30	50	127
1964	I Q	96	130	93
	II Q	236	289	40
	III Q	293	87	246
	IV Q	305	484	67

(1) At end of period.

Trade in outstanding Canadian issues generally followed the pattern of the preceding two years. However, the net outflow of \$97 million for the repurchase of outstanding equities was substantially below that in 1963 while the net capital inflow from the sale of Canadian bonds and debentures at \$77 million was twice that in the previous year. Transactions in outstanding foreign securities yielded, on balance, a capital outflow of \$40 million - a swing of \$82 million from the net sales balance of \$42 million in 1963.

Net sales to non-residents of outstanding Canadian bonds and debentures took place in each quarter of 1964, being larger, however, in the latter half of the year. The inflow absorbed, on balance, \$60 million of outstanding Government of Canada issues and \$20 million of provincial and municipal obligations while Canadians repurchased \$3 million of corporation issues.

In only two months of 1964, May and July, were there net sales balances of outstanding Canadian common and preference stocks to non-residents which made little overall impression on the continuing quarterly repatriation of these securities - a salient feature of the past three years.

Retirements of Canadian securities held by non-residents involved outflows of \$357 million, somewhat higher than in 1963. A large and rising volume of retirements is to be expected in the light of the substantial increasing holdings of Canadian bonds and debentures by non-residents. The series also reflect retirements of preferred stock and special repurchases of some common stocks such as those arising from the acquisition by provincial authorities of private utility companies; these transactions contributed less to the totals in 1964 than in 1963.

Trade in outstanding foreign securities resulted in net acquisitions amounting to \$40 million, resuming the pattern of capital outflows established in 1959 and interrupted only in 1963. The net outflows in 1964 were concentrated mainly in the acquisition of United States equities.

Net acquisitions by non-residents of Canadian securities in 1964 increased at a faster rate than the net new supply of these securities with the result that non-residents purchased, on balance, almost one quarter of the net new supply of all Canadian portfolio securities compared with one fifth of the smaller amount raised in 1963. The relative incidence of non-resident net acquisitions however, is still below the levels prevailing in the late 1950's. Significant increases in the proportion of non-resident participation in the net new supply were apparent for provincial, municipal and corporate securities while a decline was recorded for non-resident participation in Government of Canada issues in which a major factor undoubtedly was the absence of any new borrowing in foreign-pay issues.

A more extended review of international security movements in 1964 will be found in the December issue of "Sales and Purchases of Securities Between Canada and Other Countries". (DBS Catalogue No. 67-002).

OTHER CAPITAL FLOWS IN LONG-TERM FORMS

Canadian Government non-military assistance abroad in 1964 took the form largely of payment of the regular assessments by international organizations of which Canada is a member, official contributions, inter-governmental loans, subscriptions to the capital of international investment agencies, and the extension or guarantee of export credits. Assessments and contributions both form a part of Canada's payments on current account, while the other transactions, to the extent to which they give rise to claims on non-residents are mainly reflected as an outflow of capital in long-term forms.

The intergovernmental loans extended by Canada during 1964, mainly in the first quarter, amounted to \$2 million and took the form of additional advances to India for the purchase of aircraft. In the final quarter of the year Canada paid its regular subscription of \$8 million to the International Development Association. This institution was established to assist in economic development in less developed countries whose ability to make good use of capital exceeds their capacity to service

loans extended on conventional terms. To date Canada has paid in to the Association about \$41 million. Not all of these funds have yet been used by the Association, and the offsetting liability appears mainly in the item for Government of Canada demand liabilities.

During the year Canada received repayments aggregating \$9 million on intergovernmental loans extended earlier. This figure was down sharply from the total of \$25 million in 1963, mainly because the United Kingdom availed itself of the waiver provisions applicable to the Canadian loan of 1946. As a result there was no receipt in 1964 comparable to the repayment of \$18 million received in 1963. Most of the repayments in 1964 were from India and Belgium, as the amounts falling due in 1964 from France and the Netherlands were prepaid in 1962. In addition to the repayments of principal, there were receipts of \$6 million on account of interest in 1964, which were also affected by the application of the waiver arrangements with the United Kingdom. The receipts form a part of the item in the current account covering Canada's receipts of interest and dividends.

A special feature of the capital flows in long-term forms during the third quarter of 1964 arose under the Columbia River Treaty. As described in the report for the third quarter, Canada received the United States dollar equivalent of \$274 million under the Treaty, and reinvested the equivalent of \$220 million in medium-term non-marketable United States Government securities, leaving a net inflow from these transactions of \$54 million.

The remaining capital movements in long-term forms in 1964 led to a net outflow of \$20 million in contrast to an outflow of \$50 million in 1963. Included in the figures were net outflows of about \$130 million and of \$40 million in the respective periods arising from loans and advances under Government programmes related to the financing of Canadian exports - including both agricultural products and a wide range of capital equipment provided to developing countries. Other types of capital transactions contributing to the balance include bank and other long-term loans, mortgage investments, and movements of insurance funds.

CAPITAL MOVEMENTS IN SHORT-TERM FORMS Capital movements in short-term forms (apart from changes in official holdings of gold, foreign exchange, and Canada's balance with the International Monetary Fund) led to a net capital inflow of \$89 million in 1964. In 1963 the comparable group of movements led to an inflow of \$90 million.

Canadian dollar deposits of non-residents rose by \$25 million over the year. Residents of the United States increased their holdings by a larger amount, and there was also an increase in the total of holdings by residents of overseas countries other than the United Kingdom. Deposits of residents of the United Kingdom fell. At the year-end deposit liabilities to non-residents aggregated about \$545 million of which about \$350 million was payable to residents of the United States, \$50 million to residents of the United Kingdom, and \$70 million to residents of Continental Europe.

Government of Canada demand liabilities payable to non-residents were unchanged in total over the year. The amount outstanding was \$26 million, mainly in the form of interest-free demand notes issued to international investment agencies.

Holdings by non-residents of Canadian treasury bills fell by \$16 million during 1964. The volume of transactions was about a third lower than in 1963, with sales aggregating \$209 million and repurchases and maturities totalling \$225 million. At their year-end level of \$23 million, non-resident holdings of Canadian treasury bills were lower than for nearly a decade. Apart from international investment agencies, holdings appear to have been small and scattered.

Composition of "Other Capital Movements"
(A minus sign indicates an outflow of capital from Canada)

Transactions with all countries	1963	1964	1963	1964			
			IV Q	I Q	II Q	III Q	IV Q
			millions of dollars				
Bank balances and other short-term funds							
abroad (excluding official reserves).....	- 255	- 499	25	154	- 125	- 160	- 368
Canadian commercial paper	- 23	- 12	12	27	- 20	- 19	-
Canadian finance paper	52	169	32	67	84	7	11
Canadian finance company obligations, n.i.e.	69	68	33	32	35	- 2	3
All other transactions(1)	233	354	41	35	132	- 3	190
Total (Item D 17)	76	80	143	315	106	177	- 164

(1) Includes changes in loans and accounts receivable and payable, and also balancing item representing difference between direct measurements of current and capital accounts.

Other types of Canadian money market instruments which were important in short-term capital movements between Canada and other countries in 1964 included Canadian commercial and finance paper. Some \$199 million of the former were reported to have been sold to non-residents, but repurchases and maturities totalled \$211 million, giving rise to a net capital outflow of \$12 million. Transactions in Canadian finance paper, on the other hand, gave rise to an inflow of \$169 million, heavily concentrated in the first half of the year. Gross sales to non-residents totalled \$778 million and repurchases and maturities \$609 million. Additionally Canadian finance companies borrowed some \$68 million in forms not shown elsewhere in the balance of payments. A related form of capital movement (which is not shown separately in the tables) was the net purchase from non-residents under buy-back arrangements of about \$3 million of Government of Canada obligations of an original term of over one year. The volume of such transactions in 1964 was of the order of \$75 million.

Capital movements of a money market character are determined primarily by short-term interest rates. Money market instruments vary as to term, currency, credit risk, etc., while the lenders vary also in character, requirements and relationships. A wide variety of interest differentials may, therefore, be appropriate to a consideration of the capital flows, but treasury bill yields in Canada and in the United States may serve as a bell-wether.

Yields on 91-day treasury bills in Canada ranged during the year between 3.53 and 3.90 per cent. This was half the range in 1963. The comparable range on United States bills was from 3.42 per cent to 3.84 per cent. But while the highest yield in Canada was reached in March, when the differential between the Canadian and United States rates was 0.36 per cent, the highest yield in the United States was reached in December when the differential had been practically eliminated. Ninety-day forward exchange cover for United States dollars ranged on an annual rate basis from a cost of 0.28 per cent to a yield of 0.37 per cent. The protected differential advantage in purchasing Canadian as against United States treasury bills exceeded four-tenths of one per cent briefly in the spring and again in the early summer. Throughout the final quarter of the year, however, a net advantage in United States as against Canadian bills was indicated. Theoretically movements of interest arbitrage capital should continue to a point where the cost of exchange protection offsets any remaining interest differential. In practice nominal differentials are often too narrow to motivate transactions and not all purchases by non-residents of money market instruments are hedged by forward exchange contracts.

Holdings by Canadian residents of bank balances and other short-term funds abroad rose by nearly \$500 million in 1964 - an unusually large net change. In the first quarter holdings dropped by \$154 million, but over the succeeding quarters they rose by \$125 million, \$160 million and \$368 million. A great many factors influence these holdings. In the last half of the year Canada experienced a net surplus on current account, but it has already been noted that a number of factors converged to produce a substantial capital inflow in long-term forms. The growth in private and banking exchange holdings may be viewed in some part as temporary employment of these funds. Well over half the net increase in 1964 represented "swap deposits" of the type described in the report for the third quarter, and may be presumed to have been influenced in some measure by demands for forward exchange. Major changes probably occurred in the structure of both demand and supply in the forward market during 1964. At the beginning of the year impending large receipts from special wheat transactions were substantially in excess of the forward position of the Exchange Fund Account. Over the year these wheat contracts were filled; the growth in holdings by non-residents of short-term Canadian money market instruments (which are understood to be generally covered by forward exchange contracts) came to an end with the changing structure of short-term interest rates; and the world's exchange markets suffered severe shocks arising from the difficulties experienced by the United Kingdom.

All other capital movements in short-term forms, including changes in banking and other loans and accounts receivable and payable, as well as the balancing item representing the difference between direct measurements of the current and capital accounts, gave rise to a net inflow of \$354 million in 1964.

Official Holdings of Gold and Foreign Exchange and Canada's Balance with the IMF

Although Canada's official holdings of gold and foreign exchange continued to rise during the fourth quarter of 1964 as a whole, the rate of increase declined sharply and in the final month of the year there was a decline. The factors giving rise to this strength have already been noted. The decline in December exceeded the effects on Canada's official holdings induced by transactions during the month with the International Monetary Fund.

United States Dollar in Canada

		High	Low	Close	Noon average
Canadian cents					
1963	IV Q	108.09	107.72	108.06	107.83
1964	I Q	108.09	107.94	108.06	108.02
	II Q	108.25	108.03	108.13	108.09
	III Q	108.22	107.50	107.50	107.87
	IV Q	107.63	107.25	107.38	107.46

The net increase in Canada's official holdings of gold and United States dollars in 1964 represented a little more than half the increase in the world's stock of monetary gold generated by Canadian gold production. Official holdings of sterling continued to be limited to working balances. As in the third quarter an agreement between the Bank of Canada and the Bank of England to place a short-term credit facility at the disposal of the United Kingdom had no effect on the statistics presented in this report.

Canada's so-called "gold tranche position" with the International Monetary Fund together with loans made under the General Arrangements to Borrow, amounted to \$197.5 million expressed in United States dollars, at the end of the year, having increased by \$117.2 million in the fourth quarter. The total represents the net resources made available by Canada to the IMF, and may be drawn by Canada virtually automatically on statement of balance of payments need although Canada would then be under an obligation to restore the figure to 25 per cent of its quota which is currently \$550 million, i.e. to \$137.5 million. Additional drawings on the so-called "credit tranche" would require further justification. At the end of 1963 Canada's outstanding drawings on the IMF credit tranche amounted to \$58.5 million, and the improvement over the year therefore amounted to \$256 million.

Contributing to the change in Canada's balance with the International Monetary Fund in the fourth quarter were transactions in both October and December. In the former month Canada repaid to the Fund \$57.2 million in United States funds which restored the gold tranche position to 25 per cent of the Canadian Quota of \$550 million. This gold tranche position had been eliminated by Canada's drawing from the Fund in June, 1962. In December Canada's position was increased as a result of assistance extended under the auspices of the IMF to the United Kingdom. The latter country drew from the IMF the Canadian dollar equivalent of \$69 million in United States funds. The Fund simultaneously purchased from Canada \$9 million of Canadian funds against gold. In concert with a number of other countries, Canada increased the Fund's resources by making available to it under the General Arrangements to Borrow, the Canadian funds equivalent of \$15 million. The balance of \$45 million represented a drawing down at the IMF's Canadian dollar holdings. On balance these transactions added a further \$60 million to Canada's net balance with the International Monetary Fund. All amounts quoted in the last two paragraphs are expressed in United States dollar equivalents.

End of period	Official holdings of gold and United States dollars	Net balance with Inter- national Monetary Fund
millions of United States dollars		
1963	II Q	2,692
	III Q	2,568
	IV Q	2,595
1964	I Q	2,466
	II Q	2,534
	III Q	2,625
	IV Q	2,674
	October	2,687
	November	2,743
	December	2,674

The increase in official holdings of gold and United States dollars during the fourth quarter amounted to \$53 million, expressed in Canadian funds, while corresponding holdings of sterling were little changed. During the year as a whole official holdings of gold and United States dollars increased by \$85 million and corresponding holdings of sterling \$1 million.

Official holdings of gold and United States funds, expressed in terms of United States dollars, amounted to \$2,674 million at December 31, 1964. This was \$79 million higher than at the beginning of the year, but \$18 million lower than at the end of June 1963.

In Canadian dollar terms Canada's balance with the International Monetary Fund improved by \$127 million in the fourth quarter and by \$277 million in the year as a whole.

This table does not include holdings by the Government of Canada at the end of 1964 of \$204 million of medium-term non-marketable securities of the United States Government acquired in connection with the Columbia River Treaty arrangements.

Canada's Accounts with the International Monetary Fund

Period	Canadian assets			Canadian liabilities = IMF holdings of Canadian dollars					Canada's net balance with IMF(1)
	Transactions			Transactions					
	Subs- crip- tion (Quota)	Loans (GAB)	Total assets	Subs- crip- tions and loans	Net drawings of foreign currencies by Canada	Net drawings (-) of Cana- dian dollars by other countries	Sales of Canadian dollars to IMF for gold	Total liabi- lities	
	expressed in millions of United States dollars								
1947	300.0		300.0	225.0				225.0	75.0
1956			300.0			- 15.0		210.0	90.0
1959	250.0		550.0	187.5				397.5	152.5
1961			550.0			- 84.6	25.0	337.9	212.1
1962			550.0		300.0	50.3		688.2	- 138.2
1963	3Q		550.0		- 79.7			608.5	- 58.5
	4Q		550.0					608.5	- 58.5
1964	1Q		550.0		- 58.8	- 20.0		529.7	20.3
	2Q		550.0			- 5.0		524.7	25.3
	3Q		550.0		- 50.0	- 5.0		469.7	80.3
	4Q	15.0	565.0	15.0	- 57.2	- 69.0	9.0	367.5	197.5

(1) This is a cumulative measure of the net resources provided by Canada to the IMF. The Canadian dollar equivalent of the change appears as item H2 in the balance of payments statement. Canada's net balance with the IMF when positive represents the so-called "gold tranche position" plus borrowing under the General Arrangements to Borrow. This may be drawn by Canada virtually automatically on statement of balance of payments need, but Canada would then be under an obligation to restore its net balance to 25 per cent of the Quota.

Note: The statement is expressed in terms of United States dollar equivalents in accordance with the IMF practice. Since members are obligated to maintain the gold value of the IMF's holdings of their currencies, there have been adjustment payments between the IMF and Canada in Canadian dollars from time to time arising from changes in the exchange rate. These transactions are not reflected above because the series are shown in United States dollar equivalents, and do not appear in the balance of payments statements because only the change in Canada's net asset is shown. The adjustment transactions affect the Public Accounts of Canada.

Foreign Ownership and Control of Canadian Industry

Estimates of the book value of total investment in selected Canadian industries have now been completed for the end of 1962 and permit the calculation of new ratios of foreign ownership and control. The data for the years 1960 to 1962 appear in the accompanying statements which also show 1954, the earliest year for which data compiled on the current basis are available.

It should be noted that in these series "ownership" refers to the total of long-term capital employed within Canada in the particular industrial group. It applies, therefore, to the ownership of obligations as well as of equities of the individual enterprises.(1) The term "control" relates to the aggregate long-term investment in Canada in companies whose principal owners are non-residents. The concept is a measure of relationships, implying potential control rather than the degree of autonomy exercised. More complete descriptions of the concepts and statistics will be found in the annual reports for 1960 and 1961-62 in the Canadian balance of international payments and international investment position. (DBS Catalogue No. 67-201).

Canadian-owned and Canadian-controlled investments in manufacturing enterprises and in petroleum and natural gas both grew less in 1962 than foreign. Foreign ownership as a proportion of total manufacturing remained, however, unchanged at 54 per cent while foreign control moved upwards by 1 percentage point to 60 per cent. In the petroleum and natural gas industry foreign ownership remained relatively unchanged at 63 per cent while foreign control rose about 2 percentage points to 74 per cent. Foreign ownership in the Canadian mining and smelting industry remained relatively unchanged at 62 per cent but Canadian control outpaced foreign which declined 2 percentage points to 57 per cent. Foreign ownership of Canadian railways fell 2 percentage points to 23 per cent and control remained relatively unchanged at 2 per cent. Foreign ownership of other utilities remained relatively unchanged at 13 per cent while foreign control dropped 1 percentage point to 4 per cent.

Taking into account all the foregoing industries and also merchandising and construction, foreign ownership was relatively unchanged through 1962 at 35 per cent, having edged up 1 percentage point the previous year. The foreign controlled share of these industries edged upwards 1 percentage point during 1962 to 34 per cent. All of these figures take account of investment in government enterprises in Canada. The Canadian controlled percentage of the whole group of industries, amounting to 67 per cent in 1961 and 66 per cent in 1962, included some 22 and 24 percentage points respectively represented by investments of the public sector. Most of these investments are to be found in railways and other utilities.

It should again be emphasized that there are broad areas of national wealth not covered in the series, in most of which non-resident ownership and control is relatively insignificant.

- (1) These series fall considerably short of the gross assets of the constituent companies because of the existence of short-term liabilities, and the omission both of assets outside Canada and of intercorporate assets.

Foreign Ownership and Control of Canadian Industry(2)

Industry classification	Non-resident <u>ownership</u> as a percentage of selected Canadian industries				Non-resident <u>control</u> as a percentage of selected Canadian industries			
	1954	1960	1961 ^r	1962	1954	1960	1961 ^r	1962
Percentage of total owned or controlled by all non-residents:								
Manufacturing	47	52	54	54	51	59	59	60
Petroleum and natural gas	60	62	63	63	69	73	72	74
Mining and smelting	53	60	62	62	51	61	59	57
Railways	35	26	25	23	2	2	2	2
Other utilities	14	14	13	13	8	5	5	4
Total of above industries and merchandising	32	34	35	35	28	33	33	34
Percentage of total owned or controlled by United States residents:								
Manufacturing	37	41	43	43	42	44	45	45
Petroleum and natural gas	57	53	54	52	67	64	63	62
Mining and smelting	47	52	54	54	49	53	52	51
Railways	15	9	9	9	2	2	2	2
Other utilities	12	12	11	11	7	4	4	4
Total of above industries and merchandising	25	27	27	28	24	26	26	27

- (2) For earlier years see Tables XII and XIV, The Canadian Balance of International Payments 1961 and 1962 and International Investment Position.

Estimated Book Value, Ownership and Control of Capital Employed in Selected Canadian Industries,
Selected Year Ends(1)

(billions of dollars)

Industry classification	Total capital(2) employed				Resident owned capital			
	1954	1960	1961 ^r	1962	1954	1960	1961 ^r	1962
Manufacturing	8.3	12.2	12.7	13.1	4.4	5.8	5.9	6.0
Petroleum and natural gas	2.5	6.1	6.4	6.8	1.0	2.3	2.4	2.5
Other mining and smelting	1.9	3.3	3.4	3.6	0.9	1.3	1.3	1.4
Railways	4.1	5.3	5.4	5.4	2.7	3.9	4.0	4.1
Other utilities	5.3	9.2	10.3	10.6	4.6	7.9	9.0	9.2
Merchandising(3) and construction	6.1	9.4	9.4	9.5	5.5	8.5	8.5	8.6
Total of above	28.2	45.6	47.6	49.0	19.1	29.9	31.1	31.8
	Non-resident owned capital(4)				United States owned investments(4)			
	1954	1960	1961	1962	1954	1960	1961	1962
Manufacturing	3.9	6.4	6.8	7.1	3.1	5.1	5.4	5.7
Petroleum and natural gas	1.5	3.7	4.0	4.3	1.4	3.2	3.4	3.5
Other mining and smelting	1.0	2.0	2.1	2.3	0.9	1.7	1.8	2.0
Railways	1.4	1.4	1.4	1.3	0.6	0.5	0.5	0.5
Other utilities	0.7	1.3	1.3	1.4	0.6	1.1	1.1	1.2
Merchandising and construction	0.6	0.9	0.9	1.0	0.4	0.6	0.6	0.7
Total of above	9.1	15.7	16.5	17.2	7.0	12.1	12.9	13.5
	Total Canadian and external investment in companies controlled outside Canada				Total Canadian and external investment in companies controlled in the United States			
	1954	1960	1961	1962	1954	1960	1961	1962
Manufacturing	4.3	7.2	7.5	7.8	3.5	5.4	5.7	5.9
Petroleum and natural gas	1.7	4.4	4.7	5.0	1.7	3.9	4.0	4.2
Other mining and smelting	1.0	2.0	2.0	2.1	0.9	1.7	1.8	1.9
Railways	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other utilities	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Merchandising and construction	0.5	1.0	1.1	1.1	0.4	0.6	0.6	0.6
Total of above	8.0	15.2	15.7	16.6	6.9	12.0	12.6	13.1

(1) For years 1955 to 1959 inclusive see Table XVI, The Canadian Balance of International Payments 1961 and 1962 and International Investment Position.

(2) Estimated from "Taxation Statistics" and other sources.

(3) Estimates of capital employed in merchandising and founded on less satisfactory data than for other series and must be regarded as illustrating broad relative magnitudes only.

(4) The figures shown are in some cases somewhat larger than the corresponding data in statements of foreign investments in Canada. "Other enterprises" have been included with manufacturing, and some funded debt of governments and municipalities relevant to undertakings in "Other utilities" has also been included.

Note: Because of rounding and of possible statistical shortcomings in parts of the series, some of the year-to-year changes derived from the table may have only limited significance and may from time to time be misleading.

Canada's International Investment Position

This report includes Tables V to X which will be a part of the next annual report on Canada's balance of international payments and international investment position. They provide statistics to the end of 1962 for the Canadian balance of international indebtedness⁽¹⁾ together with details of Canadian long-term investments abroad and of foreign long-term investments in Canada. (Table V showing the Canadian balance of international indebtedness has been revised to include miscellaneous investments abroad by Canadians and to reflect Canada's claims on and liabilities to international financial agencies consistently with their treatment in the balance of payments statistics.) The principal factors in changes of both external assets and liabilities are usually the flows of international capital and the accrual of earnings. Contributing significantly to the growth of Canada's external assets during both 1961 and 1962 was the greater value in terms of Canadian dollars of assets denominated in foreign currency.

Canada's external assets (including official holdings of gold) totalled \$10.3 billion at the end of 1962, an increase of \$0.6 billion. The total includes \$6.1 billion in Canadian long-term investments abroad. Canada's official holdings of gold and foreign exchange together with Canada's net position in the International Monetary Fund accounted for a further \$2.6 billion.

Canada's gross external liabilities are shown to have risen to \$28.8 billion at the end of 1962 of which \$24.7 billion represented the book value of foreign long-term investments in Canada. The rise of \$1.3 billion in 1962 was the smallest since 1955.

Canada's net external liabilities at the end of 1962 amounted to \$18.6 billion, having risen from \$5.2 billion a decade earlier. By the end of 1964 Canada's gross external liabilities were approaching \$32 billion, assets \$12 billion, and the net balance of indebtedness was about \$20 billion.

The book value of foreign long-term investments in Canada continued to rise during 1962 but at a lower rate than for some years past. From \$23,591 million at the end of 1961 they rose to \$24,729 million a year later. The increase of \$1,138 million was the smallest since 1955 and represented a lower relative rate of increase than for any year since 1948.

The largest part of the increase took the form of direct investment in Canada which rose by \$766 million. Nearly one-third of this amount was invested in petroleum and natural gas, with manufacturing, mining and smelting, and financial enterprises accounting for most of the remainder. It will be recalled that during 1962 inflows of capital for the acquisition of existing concerns in Canada were unusually large. Other long-term investments in Canada rose by \$372 million, the largest part of which was accounted for by net sales to non-residents of government and municipal bonds. There were relatively small increases in other portfolio and miscellaneous investments, with reductions in outstanding investment in a number of the industrial sectors.

United States-owned long-term investments in Canada accounted for 77 per cent of the total owned by all non-residents at the end of 1962. This was an increase from 76 per cent a year earlier. While direct investments owned by residents of the United Kingdom and by residents of other overseas countries both rose, there was a decline in the total of portfolio investments in which repurchases from the United Kingdom of railway stocks played an important part.

Data for a number of types of Canadian long-term investments abroad are published in Table VII which provides figures for 1962 and 1963 for the first time. Direct investments abroad by Canadian companies rose from \$2,628 million at the end of 1961 to \$2,821 million at the end of 1962 and to \$3,136 million at the end of 1963. This increase of over \$500 million in a two-year period is substantially larger than for any comparable period on record, while the relative rate of increase has only been exceeded in the post-war period during the early fifties when the total value of these investments was much smaller. A significant part of the increase must be attributed to the greater value in Canadian dollar terms of assets denominated in foreign currencies. The upward valuation effect of the change in the exchange rate appears to have been carried over in part from the 1962 totals to 1963. There were increases in Canadian direct investments abroad in each year and in each of the areas covered by Table VII. The largest increases were in investments in the United States. Canadian companies engaged in industrial and commercial activity accounted for the largest part of the growth.

The figures are affected not only by international flows of capital, retained earnings, and the exchange revaluation effects already referred to, but also by some shifts in the character of investments. Changes in the distribution of holdings of public companies may cause their statistical classification to shift between direct and portfolio investment abroad.

(1) The term includes equity investments as well as contractual borrowings and is used in the broad sense generally accepted in balance of payments terminology.

Non-residents have a substantial equity in Canadian assets abroad through their participation as owners in Canadian parent companies. About \$1.3 billion of the Canadian assets abroad are beneficially owned by non-residents. An entry of this magnitude is included as a liability in the statement of Canada's balance of international indebtedness.

Canadian portfolio investment in foreign securities totalled \$1,797 million at the end of 1963, having risen from \$1,471 million two years earlier. More than \$250 million of the total increase of \$326 million occurred in 1962. In that year Canadians purchased, on balance, some \$65 million of foreign securities, while in 1963 they were net sellers of \$23 million. The statistical impact of the change in the external value of the Canadian dollar fell entirely in the earlier year, and 1962 also saw some shifts to this category of Canadian investment from direct investment. Retained earnings accruing to Canadian shareholders enhanced the value of holdings in each year.

Most of the increase in portfolio holdings occurred in foreign equities which had a book value of \$1,522 million at the end of 1963. These included nearly \$1,200 million of United States stocks. As in the case of Canada's external liabilities the values attributed to these securities are the book values appearing in the accounts of the companies themselves. Market values would in each case be substantially higher.

TABLE V. The Canadian Balance of International Indebtedness, Selected Year Ends 1926-62¹

Item	1926	1930	1939	1945	1949	1951	1954	1955	1956	1957	1958	1959	1960	1961	1962
billions of dollars															
Canadian liabilities:															
Direct investment VIII, X	1.8	2.4	2.3	2.7	3.6	4.5	6.8	7.7	8.9	10.1	10.9	11.9	12.9	13.7	14.5
Government and municipal bonds IX	1.4	1.7	1.7	1.7	1.8	2.1	2.1	1.9	2.1	2.3	2.6	3.1	3.3	3.4	3.7
Other portfolio investments VIII	2.5	3.2	2.6	2.4	2.3	2.5	3.2	3.2	3.7	4.1	4.4	4.6	4.6	4.7	4.8
Miscellaneous investments VIII	0.3	0.3	0.3	0.3	0.3	0.3	0.6	0.6	0.8	0.9	1.1	1.3	1.4	1.7	1.7
Foreign long-term investments in Canada VIII, IX	6.0	7.6	6.9	7.1	8.0	9.5	12.5	13.5	15.6	17.5	19.0	20.9	22.2	23.6	24.7
Equity of non-residents in Canadian assets abroad	..	..	0.2	0.2	0.3	0.4	0.6	0.7	0.8	0.8	0.9	1.0	1.1	1.2	1.3
Canadian dollar holdings of non-residents	..	..	0.3	0.3	0.4	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.6	0.6
Gross liabilities²	6.4	8.0	7.4	7.6	8.7	10.3	13.5	14.6	16.7	18.7	20.4	22.4	24.0	25.4	26.6
United States ^{2,7}	3.5	4.9	4.5	5.4	6.4	7.9	10.3	11.1	12.6	14.1	15.5	17.0	18.0	19.3	20.4
United Kingdom ^{2,7}	2.7	2.9	2.6	1.8	1.8	1.9	2.3	2.5	2.8	3.1	3.2	3.4	3.5	3.5	3.6
Other countries ^{2,3}	0.2	0.2	0.3	0.4	0.5	0.5	0.8	1.0	1.3	1.5	1.7	2.1	2.4	2.5	2.6
Short-term payables ⁴	..	..	..	0.4	0.4	0.7	0.4	0.5	0.7	1.0	1.2	1.6	1.7	2.1	2.2
Gross liabilities	6.4²	8.0²	7.4²	8.0	9.1	11.1	13.9	15.0	17.5	19.7	21.6	23.9	25.7	27.5	28.8
Canadian assets:															
Direct investment VII	0.4	0.4	0.7	0.7	0.9	1.2	1.6	1.7	1.9	2.1	2.1	2.3	2.5	2.6	2.8
Portfolio investments VII	0.5	0.8	0.7	0.6	0.6	0.6	0.9	1.0	1.0	1.1	1.1	1.2	1.3	1.5	1.7
Government of Canada loans and advances VII	—	—	—	0.7	2.0	1.9	1.7	1.6	1.6	1.6	1.5	1.5	1.5	1.4	1.3
Government of Canada subscriptions to international investment agencies	—	—	—	—	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Miscellaneous investments ⁵	—	—	—	—	—	-0.1	-0.1	-0.1	—	-0.1	-0.1	—	—	0.1	0.2
Canadian long-term investments abroad	0.9	1.3	1.4	2.0	3.6	3.7	4.3	4.4	4.5	4.7	4.8	5.0	5.3	5.7	6.1
Government of Canada holdings of gold and foreign exchange VI	—	—	0.5	1.7	1.2	1.8	1.9	1.9	1.9	1.8	1.9	1.8	1.8	2.2	2.7
Net IMF position	—	—	—	—	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	-0.1
Other Canadian short-term holdings of exchange	6	6	—	0.1	0.1	0.1	0.5	0.4	0.6	0.9	1.0	1.0	1.2	1.1	1.1
Gross assets²	1.3	1.5	1.9	3.9	5.1	5.8	6.7	6.8	7.1	7.5	7.7	8.0	8.5	9.2	9.8
Government of Canada holdings of gold, foreign exchange and net IMF position	—	—	0.5	1.7	1.3	1.9	2.0	2.0	2.0	1.9	2.0	1.9	2.0	2.4	2.6
United States ^{2,7}	0.7	0.9	0.9	1.0	1.3	1.4	2.2	2.3	2.6	3.0	3.1	3.3	3.7	3.9	4.1
United Kingdom ^{2,7}	0.1	0.1	0.1	0.7	1.6	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.5	1.5	1.6
Other countries ^{2,3}	0.5	0.5	0.4	0.5	0.9	1.0	1.1	1.1	1.1	1.2	1.3	1.3	1.3	1.4	1.5
Short-term receivables ⁴	..	..	..	0.1	0.2	0.2	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Gross assets	1.3²	1.5²	1.9²	4.0	5.3	6.0	6.9	7.1	7.5	7.9	8.2	8.5	9.0	9.7	10.3
Canadian net international indebtedness:															
Net liabilities	5.1²	6.5²	5.5²	4.0	3.8	5.1	6.9	7.9	10.0	11.8	13.4	15.4	16.7	17.8	18.6
Government of Canada holdings of gold, foreign exchange and net IMF position	—	—	-0.5	-1.7	-1.3	-1.9	-2.0	-2.0	-2.0	-1.9	-2.0	-1.9	-2.0	-2.4	-2.6
United States ^{2,7}	2.8	4.0	3.6	4.4	5.1	6.5	8.1	8.7	10.0	11.1	12.4	13.6	14.3	15.4	16.4
United Kingdom ^{2,7}	2.6	2.8	2.5	1.1	0.2	0.4	0.8	1.1	1.4	1.6	1.8	1.9	2.0	2.0	2.0
Other countries ^{2,3}	-0.3	-0.3	-0.1	-0.1	-0.4	-0.5	-0.2	-0.1	0.2	0.3	0.4	0.8	1.1	1.1	1.1
Short-term indebtedness ⁴	..	..	..	0.2	0.2	0.5	0.1	0.2	0.3	0.7	0.7	1.1	1.3	1.6	1.8

¹ For 1933 and missing years after 1945 unrevised presentation see Tables II and III in "Canada's Short-term External Assets and Liabilities 1945-1957" (DBS Catalogue No. 67-504).

² Excludes short-term receivables and payables.

³ Includes international investment agencies.

⁴ Country distribution not available.

⁵ Includes reserve against inactive assets.

⁶ Net external assets of the Chartered Banks of Canada amounted to \$370 million in 1926 and \$180 million in 1930.

⁷ Excludes Government of Canada holdings of gold and foreign exchange.

Note: As figures are rounded, totals do not necessarily equal the sum of their component parts. Roman numerals refer to tables with further detail.

General note applicable to all statistics of foreign investments in Canada

Common and preference stocks are included at book (equity) values as shown in the balance sheets of the issuing companies, bonds and debentures are valued at par, liabilities in foreign currencies being converted into Canadian dollars at the original par of exchange.

Investments in Canadian companies have been classified according to principal activities in Canada.

Investments in Canada shown as owned by residents of the United States and the United Kingdom include some investments held for residents of other countries.

For more detailed explanations see "Canada's International Investment Position, 1926-1954".

TABLE VI. Canada's Official Holdings of Gold and United States Dollars,¹ 1952-63

At end of	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
millions of U.S. dollars												
March	1,787.2	1,845.3	1,827.2	1,871.5	1,871.4	1,923.6	1,867.7	1,888.3	1,856.1	1,934.9	1,709.4	2,600.1 ²
June	1,827.7	1,750.1	1,863.3	1,930.4	1,899.5	1,941.8	1,921.4	1,934.2	1,773.9	1,985.2	1,808.7 ³	2,691.6 ³
September	1,855.6	1,787.3	1,898.6	1,936.7	1,903.5	1,889.9	1,888.2	1,938.3	1,813.0	1,924.3	2,444.6 ³	2,568.3 ⁴
December	1,860.2	1,818.5	1,942.6	1,900.8	1,936.2	1,828.3	1,939.1	1,869.2	1,829.2	2,055.8	2,539.4 ²	2,595.0 ⁴

¹ Gold, United States dollars and short-term securities of the United States Government held by the Exchange Fund Account and other Government accounts and net holdings of the Bank of Canada.

² Includes \$300 million special international financial assistance.

³ Includes \$650 million special international financial assistance.

⁴ Includes \$220.3 million special international financial assistance.

TABLE VII. Canadian Long-Term Investments Abroad,¹ Selected Year Ends 1926-63²

Location and year	Direct investment in branches subsidiaries and controlled companies					Portfolio investment in foreign securities			Total private long-term investments abroad	Government of Canada credits	Total
	Railways and utilities	Industrial and commercial	Mining and petroleum	Other concerns	Total direct investment	Stocks	Bonds	Total portfolio investment			
millions of dollars											
In all countries:											
1926	..	..	..	..	397	..	..	493	890	36	926
1930	..	..	..	..	443	..	..	789	1,232	31	1,263
1939	249	289	123	10	671*	511	208	719*	1,390	31	1,421
1945	239	337	138	6	720	454	167	621	1,341	707	2,048
1947	246	414	155	7	822	426	153	579	1,401	1,816	3,217
1949	276	553	91	6	926	477	161	638	1,564	2,000	3,564
1951	320	723	117	6	1,166	467	142	609	1,775	1,922	3,697
1955	438	993	291	20	1,742	767	224	991	2,733	1,635	4,368
1956	418	1,106	340	27	1,891	785	221	1,006	2,897	1,587	4,484
1957	425	1,198	410	40	2,073	811	257	1,068	3,141	1,560	4,701
1958	429	1,250	427	43	2,149	868	250	1,118	3,267	1,528	4,795
1959	457	1,343	417	78	2,295	934	249	1,183	3,478	1,495	4,973
1960	456	1,482	459	84	2,481	1,050	265	1,315	3,796	1,462	5,258
1961	504	1,566	446	112	2,628	1,195	276	1,471	4,099	1,424	5,523
1962	475*	1,769	463	114	2,821	1,445	278	1,723	4,544	1,301	5,845
1963	495	1,931	558	152	3,136	1,522	275	1,797	4,933	1,285	6,218
In the United States:											
1939	211	176	21	4	412	380	121	501	913	—	913
1945	212	214	25	4	455	317	92	409	864	—	864
1947	217	272	37	5	531	283	83	366	897	—	897
1949	247	413	58	3	721	345	98	443	1,164	—	1,164
1951	288	549	71	4	912	289	87	376	1,288	—	1,288
1955	393	710	175	15	1,293	539	89	628	1,921	—	1,921
1956	378	804	190	22	1,394	569	84	653	2,047	—	2,047
1957	380	833	206	32	1,451	593	118	711	2,162	—	2,162
1958	379	833	197	31	1,440	659	111	770	2,210	—	2,210
1959	382	862	191	63	1,498	734	111	845	2,343	—	2,343
1960	374	971	223	64	1,632	827	120	947	2,579	—	2,579
1961	420	1,018	240	78	1,756	938	119	1,057	2,813	—	2,813
1962	431	1,092	225	75	1,823	1,124	116	1,240	3,063	7 ³	3,070
1963	438	1,132	309	109	1,988	1,197	111	1,308	3,296	7 ³	3,303
In the United Kingdom:											
1939	—	53	—	6	59	22	21	43	102	—	102
1945	—	53	—	1	54	26	27	53	107	561	668
1947	—	64	—	—	64	26	26	52	116	1,331	1,447
1949	—	58	—	1	59	21	19	40	99	1,434	1,533
1951	1	73	—	—	74	17	17	34	108	1,394	1,502
1955	2	128	—	1	131	29	17	46	177	1,202	1,379
1956	3	135	—	1	139	30	16	46	185	1,176 ⁴	1,364
1957	3	168	—	1	172	33	15	48	220	1,171 ⁴	1,391
1958	3	196	—	1	200	27	14	41	241	1,125 ⁴	1,366
1959	10	224	—	1	235	25	12	37	272	1,108 ⁴	1,380
1960	14	240	—	3	257	26	16	42	299	1,092 ⁴	1,391
1961	12	271	—	5	288	45	16	61	349	1,074 ⁴	1,423
1962	9*	327	—	8	344	51	16	67	411	1,057 ⁴	1,468
1963	6	371	—	8	385	53	16	69	454	1,039 ⁴	1,493
Other Commonwealth countries: ⁵											
1939	7	30	17	—	54	7	15	22	76	—	76
1945	7	34	28	—	69	7	12	19	88	—	88
1947	8	47	30	—	85	7	11	18	103	—	103
1949	6	51	19	—	76	6	8	14	90	—	90
1951	7	61	20	—	88	6	8	14	102	—	102
1955	4	83	72	—	159	7	21	28	187	—	187
1956	8	85	98	—	191	7	21	28	219	—	219
1957	8	93	131	3	235	7	21	28	263	—	263
1958	7	102	150	7	266	8	21	29	295	34	329
1959	8	120	153	10	291	8	19	27	318	35	353
1960	10	121	156	12	299	10	18	28	327	35	362
1961	15	95	145	24	279	11	30	41	320	30	350
1962	16	132	162	26	336	12	31	43	379	25	404
1963	17	154	165	30	366	13	29	42	408	29	437
Other foreign countries:											
1939	31	30	85	—	146	102	51	153	299	31	330
1945	20	36	85	1	142	104	36	140	282	146	428
1947	21	31	88	2	142	110	33	143	285	485	770
1949	23	31	14	2	70	105	36	141	211	568	777
1951	25	39	26	2	92	155	30	185	277	528	805
1955	39	72	44	4	159	192	97	289	448	433	881
1956	29	82	52	4	167	179	100	279	446	408	854
1957	34	104	73	4	215	178	103	281	496	389	885
1958	40	119	80	4	243	174	104	278	521	369	890
1959	57	137	73	4	271	167	107	274	545	352	897
1960	58	150	80	5	293	187	111	298	591	335	926
1961	57	182	61	5	305	201	111	312	617	320	937
1962	19*	218	76	5	318	258	115	373	691	212	903
1963	34	274	84	5	397	259	119	378	775	210	985

¹ Figures exclude investments of insurance companies and banks (held mainly against liabilities to non-residents), subscriptions to international investment agencies (Table V), and miscellaneous investments (Table V). Figures include the equity of non-residents in assets abroad of Canadian companies (Table V).

² For years 1952-54 see Table VII, "The Canadian Balance of International Payments, 1961 and 1962, and International Investment Position".

³ United Nations.

⁴ Includes deferred interest amounting to \$22 million at the end of 1956, and to \$44 million at the end of subsequent years.

⁵ Includes investments in Newfoundland prior to 1949.

TABLE VIII. Foreign Capital Invested in Canada, Selected Year Ends 1945 - 62
 Classification by type of assets and nature of national ownership

Long-term investments in Canada	A. Owned by all non-residents								B. Owned in United States							
	1945	1956	1957	1958	1959	1960	1961	1962	1945	1956	1957	1958	1959	1960	1961	1962
	millions of dollars															
By type of assets																
Bonds and debentures:																
Government and municipal ¹	1,662	2,135	2,326	2,621	3,112	3,269	3,438	3,737	1,450	1,872	2,061	2,344	2,764	2,903	3,049	3,38
Railways	843	504	480	484	492	499	512	475	495	182	166	165	159	152	174	14
Other corporations	561	1,496	1,963	2,181	2,241	2,309	2,400	2,672	414	1,252	1,666	1,863	1,924	1,980	2,124	2,40
Sub-totals	3,066	4,135	4,769	5,286	5,845	6,077	6,350	6,884	2,359	3,306	3,893	4,372	4,847	5,035	5,347	5,83
Capital stock of Canadian companies	3,194	7,991	8,875	9,352	9,916	10,480	10,865	11,517	2,088	5,711	6,328	6,679	7,117	7,472	7,894	8,32
Other corporation assets ²	548	2,376	2,686	2,967	3,490	3,965	4,429	4,433	413	2,049	2,299	2,512	2,954	3,294	3,654	3,70
Income accumulating investment funds	—	249	255	342	321	264	266	164	—	249	255	342	321	264	266	16
Miscellaneous investments	284	818	879	1,063 ^x	1,285	1,428	1,681	1,731	130	474	489	536	587	653	834	87
Total investments	7,092	15,569	17,464	19,010	20,857	22,214	23,591	24,729	4,990	11,789	13,264	14,441	15,826	16,718	17,995	18,99
By nature of national ownership																
I. Direct investments (controlled in country of ownership):																
Bonds and debentures:																
Railways	46	36	32	32	28	14	13	4	38	29	28	24	10	10	10	
Other corporations	281	781	1,075	1,135	1,182	1,211	1,346	1,565	254	730	1,004	1,058	1,106	1,116	1,255	1,48
Sub-totals	327	817	1,107	1,167	1,210	1,225	1,359	1,569	292	759	1,032	1,086	1,130	1,126	1,265	1,48
Capital stock of Canadian companies	1,860	5,725	6,398	6,826	7,324	7,839	8,190	8,850	1,613	4,629	5,196	5,515	5,922	6,263 ^x	6,579	6,96
Other corporation assets ²	526	2,326	2,624	2,887	3,372	3,808	4,188	4,084	399	2,004	2,244	2,444	2,860	3,160 ^x	3,440	3,40
Total direct investments ..	2,713	8,868	10,129	10,880	11,906	12,872	13,737	14,503	2,304	7,392	8,472	9,045	9,912	10,549	11,284	11,84
II. Government and municipal bonds³	1,662	2,135	2,326	2,621	3,112	3,269	3,438	3,737	1,450	1,872	2,061	2,344	2,764	2,903	3,049	3,38
III. Other portfolio investments (not controlled in country of ownership):																
Bonds and debentures:																
Railways:																
Controlled in Canada	795	467	447	451	462	483	497	470	457	153	138	137	134	141	163	14
Controlled in other countries	2	1	1	1	2	2	2	1	—	—	—	—	1	1	1	
Other corporations:																
Controlled in Canada	220	478	618	756	773	809	791	836	158	436	555	682	696	749	771	81
Controlled in other countries	60	237	270	290	286	289	263	271	2	86	107	123	122	115	98	10
Sub-totals	1,077	1,183	1,336	1,498	1,523	1,583	1,553	1,578	617	675	800	942	953	1,006	1,033	1,05
Capital stock of Canadian companies:																
Companies controlled in Canada	1,249	2,063	2,228	2,274	2,322	2,340	2,395	2,370	462	1,041	1,058	1,081	1,100	1,104	1,215	1,25
Companies controlled in other countries	85	203	249	252	270	301	280	297	13	41	74	83	95	105	100	10
Other corporation assets: ²																
Companies controlled in Canada	16	34	46	59	93	129	197	297	13	32	43	53	79	117	187	26
Companies controlled in other countries	6	16	16	21	25	28	44	52	1	13	12	15	15	17	27	3
Income accumulating investment funds	—	249	255	342	321	264	266	164	—	249	255	342	321	264	266	16
Total other portfolio investments	2,433	3,748	4,130	4,446	4,554	4,645	4,735	4,758	1,106	2,051	2,242	2,516	2,563	2,613	2,828	2,89
IV. Miscellaneous investments:																
Real estate, mortgages, assets administered for non-residents, private investment companies, etc.	284	818	879	1,063 ^x	1,285	1,428	1,681	1,731	130	474	489	536	587	653	834	87
SUMMARY																
I. Direct investments	2,713	8,868	10,129	10,880	11,906	12,872	13,737	14,503	2,304	7,392	8,472	9,045	9,912	10,549	11,284	11,84
II. Government and municipal bonds	1,662	2,135	2,326	2,621	3,112	3,269	3,438	3,737	1,450	1,872	2,061	2,344	2,764	2,903	3,049	3,38
III. Other portfolio investments	2,433	3,748	4,130	4,446	4,554	4,645	4,735	4,758	1,106	2,051	2,242	2,516	2,563	2,613	2,828	2,89
IV. Miscellaneous investments	284	818	879	1,063^x	1,285	1,428	1,681	1,731	130	474	489	536	587	653	834	87
Total investments	7,092	15,569	17,464	19,010	20,857	22,214	23,591	24,729	4,990	11,789	13,264	14,441	15,826	16,718	17,995	18,99

See footnotes at end of table.

TABLE VIII. Foreign Capital Invested in Canada, Selected Year Ends 1945-62 — Concluded
Classification by type of assets and nature of national ownership

Long-term investments in Canada	C. Owned in United Kingdom								D. Owned in all other countries							
	1945	1956	1957	1958	1959	1960	1961	1962	1945	1956	1957	1958	1959	1960	1961	1962
	millions of dollars															
By type of assets																
Bonds and debentures:																
Government and municipal ¹	157	152	145	145	141	127	147	137	55	111	120	132	207	239	242	213
Railways	316	296	290	292	291	290	288	264	32	26	24	27	42	57	50	68
Other corporations	116	172	200	207	206	214	185	178	31	72	97	111	111	115	91	92
Sub-totals	589	620	635	644	638	631	620	579	118	209	241	270	360	411	383	373
Capital stock of Canadian companies	973	1,646	1,835	1,934	1,983	2,078	2,023	2,083	133	634	712	739	816	930	948	1,107
Other corporation assets ²	103	234	270	312	378	439	515	509	32	93	117	143	158	232	260	221
Miscellaneous investments	85	168	177	198	200	211	223	228	69	176	213	329 ^x	498	564	624	631
Total investments	1,750	2,668	2,917	3,088	3,199	3,359	3,381	3,399	352	1,112	1,283	1,481	1,832	2,137	2,215	2,332
By nature of national ownership																
I. Direct investments (controlled in country of ownership):																
Bonds and debentures:																
Railways	8	7	4	4	4	4	3	3	—	—	—	—	—	—	—	—
Other corporations	13	19	42	45	39	46	38	24	14	32	29	32	37	49	53	55
Sub-totals	21	26	46	49	43	50	41	27	14	32	29	32	37	49	53	55
Capital stock of Canadian companies	226	789	850	938	972	1,057 ^x	1,072	1,209	21	307	352	373	430	519 ^x	539	681
Other corporation assets ²	101	233	267	309	369	428 ^x	500	470	26	89	113	134	143	220 ^x	248	212
Total direct investments	348	1,048	1,163	1,296	1,384	1,535	1,613	1,706	61	428	494	539	610	788	840	948
II. Government and municipal bonds¹	157	152	145	145	141	127	147	137	55	111	120	132	207	239	242	213
III. Other portfolio investments (not controlled in country of ownership):																
Bonds and debentures:																
Railways:																
Controlled in Canada	306	288	285	287	286	285	284	261	32	26	24	27	42	57	50	68
Controlled in other countries	2	1	1	1	1	1	1	—	—	—	—	—	—	—	—	—
Other corporations:																
Controlled in Canada	46	22	20	23	28	19	3	4	16	20	43	51	49	41	17	17
Controlled in other countries	57	131	138	139	139	149	144	150	1	20	25	28	25	25	21	20
Sub-totals	411	442	444	450	454	454	432	415	49	66	92	106	116	123	88	105
Capital stock of Canadian companies:																
Companies controlled in Canada	691	783	910	923	935	924	860	787	96	239	260	270	287	312	320	324
Companies controlled in other countries	56	74	75	73	76	97	91	87	16	88	100	96	99	99	89	102
Other corporation assets: ²																
Companies controlled in Canada	2	1	2	1	4	5	6	30	1	1	1	5	10	7	4	4
Companies controlled in other countries	—	—	1	2	5	6	9	9	5	3	3	4	5	5	8	5
Total other portfolio investments	1,160	1,300	1,432	1,449	1,474	1,486	1,398	1,328	167	397	456	481	517	546	509	540
IV. Miscellaneous investments:																
Real estate, mortgages, assets administered for non-residents, private investment companies, etc.	85	168	177	198	200	211	223	228	69	176	213	329 ^x	498	564	624	631
SUMMARY																
I. Direct investments	348	1,048	1,163	1,296	1,384	1,535	1,613	1,706	61	428	494	539	610	788	840	948
II. Government and municipal bonds	157	152	145	145	141	127	147	137	55	111	120	132	207	239	242	213
III. Other portfolio investments	1,160	1,300	1,432	1,449	1,474	1,486	1,398	1,328	167	397	456	481	517	546	509	540
IV. Miscellaneous investments	85	168	177	198	200	211	223	228	69	176	213	329^x	498	564	624	631
Total investments	1,750	2,668	2,917	3,088	3,199	3,359	3,381	3,399	352	1,112	1,283	1,481	1,832	2,137	2,215	2,332

¹ For division into Government of Canada, provincial and municipal see Table IX.
² Includes net assets of unincorporated branches and other long-term investments.

TABLE IX. Foreign Capital Invested in Canada, Selected Year Ends 1945-62

Classification by type of investment

Long-term investments in Canada by type of investment	A. Owned by all non-residents							B. Owned in United States						
	1945	1957	1958	1959	1960	1961	1962	1945	1957	1958	1959	1960	1961	1962
millions of dollars														
Government securities:														
Dominion	726	501	564	612	611	657	788	682	342	396	383	382	416	518
Provincial	624	1,165	1,276	1,585	1,632	1,743	1,862	574	1,099	1,207	1,509	1,544	1,641	1,700
Municipal	312	660	781	915	1,026	1,038	1,087	194	620	741	872	977	992	1,000
Sub-totals	1,662	2,326	2,621	3,112	3,269	3,438	3,737	1,450	2,061	2,344	2,764	2,903	3,049	3,318
Manufacturing:														
Vegetable products	268	577	608	664	720	749	787	199	440	469	509	551	586	618
Animal products	61	108	114	128	132	145	149	47	96	102	115	118	132	141
Textiles	83	128	135	140	141	148	142	41	71	73	79	84	93	100
Wood and paper products	455	1,166	1,200	1,211	1,315	1,410	1,467	383	986	1,021	1,026	1,116	1,207	1,280
Iron and products	319	1,198	1,312	1,451	1,580	1,647	1,744	297	971	1,038	1,172	1,286	1,339	1,440
Non-ferrous metals	274	1,031	1,103	1,153	1,155	1,185	1,211	209	813	879	928	928	973	1,000
Non-metallic minerals	57	179	207	227	276	286	310	48	111	129	142	151	158	165
Chemicals and allied products	169	582	617	660	698	768	810	124	418	444	473	492	553	580
Miscellaneous manufactures	37	82	85	92	98	108	116	34	76	79	86	92	101	108
Sub-totals (excluding petro- leum refining)	1,723	5,051	5,381	5,726	6,115	6,446	6,736	1,382	3,982	4,234	4,530	4,818	5,142	5,380
Petroleum and natural gas	160	2,849	3,187	3,455	3,727	4,029	4,274	152	2,570	2,866	3,108	3,184	3,444	3,580
Other mining and smelting	356	1,570	1,657	1,783	1,977	2,094	2,270	277	1,307	1,386	1,513	1,701	1,821	1,900
Public utilities:														
Railways	1,599	1,396	1,413	1,405	1,406	1,366	1,270	720	489	489	472	479	506	490
Other (excluding pipelines and public enterprises)	493	661	712	739	743	656	696	374	471	523	544	551	513	510
Sub-totals	2,092	2,057	2,125	2,144	2,149	2,022	1,966	1,094	960	1,012	1,016	1,030	1,019	1,000
Merchandising	220	715	784	878	872	917	966	158	508	549	612	608	629	610
Financial	525	1,782	1,938	2,190	2,380	2,616	2,683	285	1,202	1,314	1,471	1,587	1,775	1,800
Other enterprises	70	235	254	284	297	348	366	62	185	200	225	234	282	300
Miscellaneous investments	284	879	1,063	1,285	1,428	1,681	1,731	130	489	536	587	653	834	800
Total investments	7,092	17,464	19,010	20,857	22,214	23,591	24,729	4,990	13,264	14,441	15,826	16,718	17,995	18,900
C. Owned in United Kingdom														
D. Owned in all other countries														
millions of dollars														
Government securities:														
Dominion	—	64	65	60	48	50	48	44	95	103	169	181	191	190
Provincial	45	47	47	48	47	67	60	5	19	22	28	41	35	35
Municipal	112	34	33	33	32	30	29	6	6	7	10	17	16	16
Sub-totals	157	145	145	141	127	147	137	55	120	132	207	239	242	241
Manufacturing:														
Vegetable products	66	125	124	131	137	136	136	3	12	15	24	32	27	27
Animal products	6	6	6	7	8	7	8	6	6	6	6	6	6	6
Textiles	38	55	60	59	55	53	48	4	2	2	2	2	2	2
Wood and paper products	64	160	155	159	167	174	188	8	20	24	26	32	29	29
Iron and products	12	168	202	194	201	209	209	10	59	72	85	93	99	100
Non-ferrous metals	64	192	195	192	188	177	183	1	26	29	33	39	35	35
Non-metallic minerals	8	34	40	45	55	54	66	1	34	38	40	70	74	74
Chemicals and allied products	36	142	146	153	169	176	183	9	22	27	34	37	39	39
Miscellaneous manufactures	2	5	5	5	5	6	6	1	1	1	1	1	1	1
Sub-totals (excluding petro- leum refining)	296	887	933	945	985	992	1,026	45	182	214	251	312	312	300
Petroleum and natural gas	7	108	134	162	270	296	355	1	171	187	185	273	289	300
Other mining and smelting	60	162	171	160	152	148	184	19	101	100	110	124	125	125
Public utilities:														
Railways	806	784	794	783	755	699	618	73	123	130	150	172	161	161
Other (excluding pipelines and public enterprises)	90	112	115	125	125	76	78	29	78	74	70	67	67	67
Sub-totals	896	896	909	908	880	775	696	102	201	204	220	239	228	228
Merchandising	57	174	197	225	214	238	241	5	33	38	41	50	50	50
Financial	186	332	360	413	469	512	487	54	248	264	306	324	329	330
Other enterprises	6	36	41	45	51	50	45	2	14	13	14	12	16	16
Miscellaneous investments	85	177	198	200	211	223	228	69	213	329	498	564	624	600
Total investments	1,750	2,917	3,088	3,199	3,359	3,381	3,399	352	1,283	1,481	1,832	2,137	2,215	2,300

TABLE X. Foreign Direct Investment¹ in Canada, Selected Year Ends 1945-62
Classification by type of business

Direct investment in Canada by type of business	A. Owned by all non-residents							B. Owned in United States						
	1945	1957	1958	1959	1960	1961	1962	1945	1957	1958	1959	1960	1961	1962
	millions of dollars													
Manufacturing:														
Vegetable products	200	492	521	578	637	648	691	140	375	403	442	488	504	539
Animal products	47	98	105	119	122	135	140	44	89	95	108	111	125	129
Textiles	56	108	115	117	118	122	124	28	62	63	68	72	78	82
Wood and paper products	348	924	945	951	1,033	1,064	1,098	316	798	819	822	886	939	950
Iron and products	277	1,089	1,205	1,345	1,441	1,504	1,584	272	896	961	1,095	1,198	1,248	1,326
Non-ferrous metals	211	867	926	977	983	1,020	1,022	203	789	845	892	890	931	939
Non-metallic minerals	43	157	174	198	240	249	265	39	101	110	127	134	140	136
Chemical and allied products	144	561	595	637	671	741	780	118	405	434	460	478	538	565
Miscellaneous manufactures	33	80	82	89	97	106	115	31	75	76	83	91	100	109
Sub-totals (excluding petroleum refining)	1,359	4,376	4,668	5,011	5,342	5,589	5,819	1,191	3,590	3,806	4,097	4,348	4,603	4,775
Petroleum and natural gas	141	2,559	2,816	3,082	3,313	3,534	3,786	141	2,380	2,598	2,836	2,885 ^x	3,060	3,162
Other mining and smelting	237	1,044	1,116	1,223	1,439	1,549	1,656	215	971	1,030	1,146	1,348	1,451	1,565
Utilities (excluding pipelines)	375	286	287	282	285	289	294	358	215	216	217	224	228	238
Wholesaling	202	621	684	761	757	804	853	147	423	458	505	501	520	559
Financial	339	1,026	1,073	1,289	1,464	1,660	1,763	198	719	750	904	1,028	1,171	1,281
Other enterprises	60	217	236	258	272	312	332	54	174	187	207	215	251	269
Totals	2,713	10,129	10,880	11,906	12,872	13,737	14,503	2,304	8,472	9,045	9,912	10,549	11,284	11,849
	C. Owned in United Kingdom							D. Owned in all other countries						
	1945	1957	1958	1959	1960	1961	1962	1945	1957	1958	1959	1960	1961	1962
	millions of dollars													
Manufacturing:														
Vegetable products	60	110	108	117	124	123	129	—	7	10	19	25	21	23
Animal products	3	5	5	6	6	6	6	—	4	5	5	5	4	5
Textiles	26	46	51	49	45	43	41	2	—	1	—	1	1	1
Wood and paper products	30	125	125	127	138	115	133	2	1	1	2	9	10	15
Iron and products	4	147	186	180	185	191	190	1	46	58	70	58	65	68
Non-ferrous metals	8	61	63	64	65	65	60	—	17	18	21	28	24	23
Non-metallic minerals	4	26	30	34	38	37	49	—	30	34	37	68	72	80
Chemicals and allied products	19	139	143	150	162	170	177	7	17	18	27	31	33	38
Miscellaneous manufactures	2	4	5	5	5	5	5	—	1	1	1	1	1	1
Sub-totals (excluding petroleum refining)	156	663	716	732	768	755	790	12	123	146	182	226	231	254
Petroleum and natural gas	—	64	90	116	208 ^x	234	298	—	115	128	130	220 ^x	240	326
Other mining and smelting	22	68	77	68	66	62	67	—	5	9	9	25 ^x	36	24
Utilities (excluding pipelines)	16	37	41	40	40	38	38	1	34	30	25	21	23	18
Wholesaling	51	167	191	219	208	231	236	4	31	35	37	48	53	58
Financial	98	131	142	168	198	246	234	43	176	181	217	238	243	248
Other enterprises	5	33	39	41	47	47	43	1	10	10	10	10	14	20
Totals	348	1,163	1,296	1,384	1,535	1,613	1,706	61	494	539	610	788	840	948

¹ Direct investment covers investment in branches, subsidiaries, and controlled companies; the figures are part of the totals in Tables VIII and IX.

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Note: Data for 1964 are preliminary and data for 1963 are subject to revision

No.		1962	1963			
		IV	I	II	III	IV
		millions of dollars				
A	Current receipts:					
1	Merchandise exports (adjusted)	1,724	1,486	1,776	1,806	2,014
3	Gold production available for export	36	41	38	36	39
4	Travel expenditures	92	50	132	325	102
5	Interest and dividends	83	42	54	42	85
6	Freight and shipping	135	117	140	146	157
7	Inheritances and immigrants' funds	31	27	38	48	36
11	All other current receipts	114	111	113	113	112
12	Total current receipts	2,215	1,874	2,291	2,516	2,545
B	Current payments:					
1	Merchandise imports (adjusted)	1,582	1,412	1,702	1,655	1,810
4	Travel expenditures	100	117	158	207	107
5	Interest and dividends	233	200	198	184	287
6	Freight and shipping	154	128	161	177	175
7	Inheritances and emigrants' funds	52	38	42	49	53
9	Official contributions	9	15	17	15	14
11	All other current payments	212	212	217	213	220
12	Total current payments	2,342	2,122	2,495	2,500	2,666
C	Current account balance:					
1	Merchandise trade	+ 142	+ 74	+ 74	+ 151	+ 204
2	Other transactions, excluding B 9	- 260	- 307	- 261	- 120	- 311
3	Official contributions	- 9	- 15	- 17	- 15	- 14
4	Total	- 127	- 248	- 204	+ 16	- 121
D	Capital account:					
	Direct investment:					
1	Direct investment in Canada	+ 192	+ 67	+ 50	+ 60	+ 63
2	Direct investment abroad	- 39	- 22	- 37	- 21	- 30
	Canadian securities:					
3.1	Trade in outstanding bonds and debentures	+ 24	+ 23	+ 27	- 7	- 4
3.2	Trade in outstanding common and preference stocks	- 32	- 56	- 44	- 27	- 42
4	New issues	+ 387	+ 408	+ 394	+ 100	+ 66
5	Retirements	- 120	- 52	- 173	- 40	- 70
6,7,8	Foreign securities	- 2	+ 4	+ 24	- 3	- 2
	Loans and capital subscriptions by Government of Canada:					
9	Advances, etc.	- 8	-	-	- 8	- 10
10	Repayments to Canada	+ 51	-	+ 6	-	+ 19
11	Columbia River Treaty, net	-	-	-	-	-
13	Long-term capital transactions n.i.e.	+ 7	+ 3	- 38	- 21	+ 6
	Change in Canadian dollar holdings of foreigners:					
14.1	Deposits	+ 92	- 29	+ 38	- 12	+ 43
14.2	Government of Canada demand liabilities	- 3	-	- 3	-	+ 4
14.3	Canadian treasury bills	- 61	+ 9	- 17	+ 18	- 37
17	Other capital movements	+ 117	- 41	+ 88	- 114	+ 143
E	Net capital movement (excluding monetary items shown below) in:					
1	Long-term forms (D1 to D13)	+ 460	+ 375	+ 209	+ 33	- 4
2	Short-term forms (D14 to D17)	+ 145	- 61	+ 106	- 108	+ 153
3	Total	+ 605	+ 314	+ 315	- 75	+ 149
H = C+E	Official monetary movements in the form of:					
1	Change in official holdings of gold and foreign exchange	+ 101	+ 66	+ 111	- 145	+ 28
2	Change in net International Monetary Fund position	-	-	-	+ 86	-
3	Other special international financial assistance	+ 377	-	-	-	-

Notes: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in B 1) the annual reports on "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, B 11) insurance transactions, and business services.

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Note: Data for 1964 are preliminary and data for 1963 are subject to revision

1964				Annual totals				No.
I	II	III	IV	1961	1962	1963	1964	
millions of dollars								
1,730	2,197	2,183	2,128	5,889	6,380	7,082	8,238	A
33	41	35	35	162	155	154	144	1
59	138	353	111	482	562	609	661	3
58	55	47	127	209	202	223	287	4
135	167	172	168	486	509	560	642	5
31	42	50	43	103	124	149	166	6
114	116	117	121	403	451	449	468	7
2,160	2,756	2,957	2,733	7,734	8,383	9,226	10,606	11
								12
1,697	2,048	1,827	1,966	5,716	6,203	6,579	7,538	B
155	187	233	138	642	605	589	713	1
231	210	202	317	770	794	869	960	4
140	188	191	184	568	595	641	703	5
40	46	53	52	174	175	182	191	6
12	16	22	18	56	36	61	68	7
228	217	214	227	790	849	862	886	9
2,503	2,912	2,742	2,902	8,716	9,257	9,783	11,059	11
								12
+ 33	+ 149	+ 356	+ 162	+ 173	+ 177	+ 503	+ 700	C
- 364	- 289	- 119	- 313	- 1,099	- 1,015	- 999	- 1,085	1
- 12	- 16	- 22	- 18	- 56	- 36	- 61	- 68	2
- 343	- 156	+ 215	- 169	- 982	- 874	- 557	- 453	3
								4
+ 50	+ 10	+ 30	+ 75	+ 520	+ 495	+ 240	+ 165	D
- 40	- 45	-	- 5	- 75	- 109	- 110	- 90	1
								2
+ 4	+ 14	+ 37	+ 22	+ 61	+ 64	+ 39	+ 77	3.1
- 44	- 8	- 5	- 40	+ 39	- 116	- 169	- 97	3.2
+ 142	+ 313	+ 100	+ 498	+ 538	+ 728	+ 968	+ 1,053	4
- 109	- 96	- 58	- 94	- 300	- 320	- 335	- 357	5
- 6	- 36	- 5	- 10	- 34	- 65	+ 23	- 57	6,7,8
- 2	-	-	- 8	- 8	- 22	- 18	- 10	9
+ 4	+ 2	+ 1	+ 2	+ 37	+ 129	+ 25	+ 9	10
-	-	+ 54	-	-	-	-	+ 54	11
- 36	- 38	+ 17	+ 37	+ 132	- 116	- 50	- 20	13
+ 19	- 9	- 37	+ 52	+ 34	- 13	+ 40	+ 25	14.1
-	- 3	-	+ 3	- 2	- 4	+ 1	-	14.2
+ 4	+ 14	- 16	- 18	- 58	+ 4	- 27	- 16	14.3
+ 315	+ 106	- 177	- 164	+ 388	+ 374	+ 76	+ 80	17
- 37	+ 116	+ 171	+ 477	+ 910	+ 668	+ 613	+ 727	E
+ 338	+ 108	- 230	- 127	+ 362	+ 361	+ 90	+ 89	1
+ 301	+ 224	- 59	+ 350	+ 1,272	+ 1,029	+ 703	+ 816	2
								3
- 127	+ 62	+ 97	+ 54	+ 229	+ 537	+ 60	+ 86	H = C+E
+ 85	+ 6	+ 59	+ 127	+ 61	- 378	+ 86	+ 277	1
-	-	-	-	-	- 4	-	-	2
								3

Notes: D A minus sign indicates an outflow of capital from Canada.

D 1,2 Exclusive of undistributed profits.

D 17 This item includes mainly changes in private and chartered bank holdings of exchange, international money market transactions, loans, and changes in open account commercial indebtedness. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.

H 3 A minus sign indicates a receipt by Canada.

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QUARTERLY ESTIMATES OF THE CANADIAN
BALANCE OF INTERNATIONAL PAYMENTS
FIRST QUARTER 1965

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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FIRST QUARTER 1965

The first quarter was a period of continued rising levels of economic activity in both Canada and the United States and in some other countries, and this was reflected in record levels of international trade for the winter period. Among events of special significance for the balance of payments was the announcement by the Administration of the United States of a series of measures designed to reduce the imbalance in the United States balance of payments. The more discernible effects of these policies during the quarter on the Canadian balance of payments were in certain groups of capital flows discussed below.

Summary statement

	1963	1964	1964				1965
			I Q	II Q	III Q	IV Q	I Q
			millions of dollars				
Merchandise trade balance	+ 503	+ 700	+ 33	+ 149	+ 356	+ 162	- 57
Deficit on non-merchandise transactions	- 1,060	- 1,153	- 376	- 305	- 141	- 331	- 351
Current account balance	- 557	- 453	- 343	- 156	+ 215	- 169	- 408
Capital movements(1)	+ 703	+ 816	+ 301	+ 224	- 59	+ 350	+ 336
Long-term forms	+ 613	+ 751(2)	- 36	+ 113	+ 218(2)	+ 456	+ 148
Short-term forms	+ 90	+ 65	+ 337	+ 111	- 277	- 106	+ 188
Change in official holdings of gold, foreign exchange, and net balance with International Monetary Fund	+ 146	+ 363	- 42	+ 68	+ 156	+ 181	- 72

(1) Excluding change in official exchange holdings.

(2) Including net receipts of \$54 million under the Columbia River Treaty arrangements.

At \$408 million, Canada's current account deficit in the first quarter of 1965 widened \$65 million, or 19 per cent, over \$343 million in the first three months of 1964. The latest deficit was higher than that for any first quarter so far in the Sixties.

The increase in the deficit was attributable wholly to the worsening in the trade balance. When adjusted for balance of payments purposes, this registered a change of \$90 million from a surplus of \$33 million to a deficit of \$57 million in the March quarter of 1965. This trade deficit is the first since the second quarter of 1962, when the import balance stood at \$40 million.

The deficit on non-merchandise transactions declined to \$351 million, a level about midway between \$376 million for the first quarter of 1964 and the average for the same period of the three preceding years.

Over two thirds of the \$65 million addition to the current account deficit arose from transactions with the United States, and the remainder from transactions with overseas countries other than the United Kingdom. With the latter country, the current account surplus increased 10 per cent.

A shift to a merchandise import balance

Despite a drop of nearly \$60 million in the shipments of wheat and flour on Russian account between the first quarters of 1964 and 1965, merchandise exports increased \$95 million or 5 per cent to \$1,825 million, while merchandise imports expanded \$185 million or 11 per cent to \$1,882 million. Following the usual practice, "Trade of Canada" totals have been adjusted for use in balance of payments statements. The effect of the adjustments in the first quarter of 1965 was to transform a surplus of \$5 million on recorded trade to a deficit of \$57 million. One year previously a "Trade of Canada" surplus of \$129 million was adjusted down to \$33 million for balance of payments purposes. Progress

payments on defence goods have constituted the bulk of additions of roughly \$40 million and \$35 million respectively to recorded imports in the first quarters of 1964 and 1965. Deductions from recorded exports of under \$55 million and \$25 million respectively reflected adjustments in the two periods for wheat shipped earlier and for differences between progress payments and deliveries of military aircraft.

The gain of \$95 million in merchandise exports could be allocated \$56 million to Canadian commodities, \$10 million to re-exports and \$29 million to the above-mentioned adjustments. Largest individual gains were indicated in exports of motor vehicles (principally passenger cars), vehicle parts, nickel and rapeseed together with other oil seeds. Shipments of motor vehicles rose nearly \$20 million, and the remaining groups increased about \$15 million each. Exports of wood pulp, iron ores and zinc each gained approximately \$10 million. Smaller increases were scattered over various other commodities including food items, whisky, newsprint, minerals, semi-fabricated steel, combine reaper-threshers and equipment. Shipments of wheat declined \$25 million and those of aluminum alloys over \$10 million. Exports of uranium, railway rolling stock and aircraft each decreased about \$8 million between the March quarters. Items such as machinery and parts, motor vehicles and parts, tractors and pharmaceutical products were included in the \$11 million gain in the re-exports.

The \$185 million expansion in merchandise imports between the three months of 1964 and 1965 cannot be analyzed because commodity details are not yet available for the recent period. A substantial increase occurred in the fourth quarter of 1964 in imports of machinery, some industrial materials and consumer goods. In line with the high levels of some areas of Canadian production, investment and rising inventories, it seems likely that the preceding groups and also automobile parts have contributed to the import rise in the quarter under review.

Deficit on services and other non-merchandise items

Major Items in the Balance on Non-Merchandise Transactions

	First three months			Change
	1963	1964	1965	in 1965
millions of dollars				
Gold production available				
for export	+ 41	+ 33	+ 35	+ 2
Travel	- 67	- 96	- 89	+ 7
Interest and dividends ...	- 158	- 173	- 166	+ 7
Freight and shipping	- 11	- 5	- 9	- 4
Inheritances and migrants' funds	- 11	- 9	+ 2	+ 11
Official contributions ...	- 15	- 12	- 23	- 11
All other current trans- actions	- 101	- 114	- 101	+ 13
Balance on non-merchandise transactions	- 322	- 376	- 351	+ 25

The \$25 million decline to \$351 million in the deficit on "invisibles" originated from improvements in the balances for travel, income, migrants' funds, government defence expenditures and gold production available for export. As an offset official contributions increased and the deficit on freight and shipping account widened slightly.

Total payments of interest and dividends remained stable at \$231 million in the first quarters of 1964 and 1965, owing to offsetting changes in the interest and dividend components. A decline in dividends paid by some Canadian subsidiaries to their non-resident parents was offset by a substantial payment to a parent company during the quarter on a special block of shares not previously eligible for dividends. Small increases in both interest and dividends combined to raise the total of receipts from \$58 million to \$65 million.

With payments being stable at \$40 million and receipts rising from \$31 million to \$42 million, the balance on migrants' funds and inheritances changed from a deficit of \$9 million to a surplus of \$2 million. An increased number of immigrants and larger per capita funds brought about the rise in receipts. The deficit on government account, excluding external aid, declined as a result of slightly increased receipts and a fall in expenditures abroad, reflecting an extraordinary settlement in the first quarter of 1964 of Canada's share of common military disbursements in the past. On the other hand, official contributions rose from \$12 million to \$23 million, because of larger payments under the Colombo Plan and some other economic aid programs. With a slightly higher rise in payments than in receipts, the deficit on freight and shipping services increased from \$5 million to \$9 million. Gold production available for export increased from \$33 million to \$35 million.

With the receipts and payments on travel transactions with the United States remaining stable between the first quarters of 1964 and 1965, the reduction in the overall deficit from \$96 million to \$89 million was attributable to overseas travel.

Interest and Dividends: Payments

Period	Total	Interest	Dividends
millions of dollars			
1962	782	274	508
1963	869	324	545
1964	960	346	614
1963 I Q	200	70	130
II Q	198	90	108
III Q	184	70	114
IV Q	287	94	193
1964 I Q	231	73	158
II Q	210	94	116
III Q	202	72	130
IV Q	317	97	220
1965 I Q	231	77	154

Travel Expenditures

First three months				Change
1963	1964	1965		in 1965
millions of dollars				
Receipts:				
United States ..	45	53	53	-
Overseas	5	6	10	+ 4
All countries ..	50	59	63	+ 4
Payments:				
United States ..	80	113	113	-
Overseas	37	42	39	- 3
All countries ..	117	155	152	- 3
Balance:				
United States ..	- 35	- 60	- 60	-
Overseas	- 32	- 36	- 29	+ 7
All countries ..	- 67	- 96	- 89	+ 7

The travel deficit with the United States remained unchanged at \$60 million for the three months of 1964 and 1965 but was higher than \$35 million for the same period of 1963. The narrowing by \$7 million to \$29 million in the deficit with the overseas countries resulted from an increase of \$4 million in travel receipts together with a \$3 million decline in Canadian expenditures abroad. Comparisons between the two quarters may have been affected significantly by the unusual incidence of Easter in the first quarter of 1964. As a result Canadian expenditures in the United States in particular were greater than usual in the first quarter of 1964.

Summary of Current Transactions with the United States, United Kingdom and Other Countries

First Quarter 1964 and 1965, and Change Between the Periods

	1964	1965	Change	1964	1965	Change
millions of dollars						
All countries			United States			
Merchandise exports (adjusted)	1,730	1,825	+ 95	952	1,070	+ 118
Merchandise imports (adjusted)	1,697	1,882	+ 185	1,233	1,393	+ 160
Balance on merchandise trade	+ 33	- 57	- 90	- 281	- 323	- 42
Other current receipts	430	465	+ 35	283	289	+ 6
Other current payments	806	816	+ 10	551	561	+ 10
Balance on non-merchandise transactions	- 376	- 351	+ 25	- 268	- 272	- 4
Total receipts	2,160	2,290	+ 130	1,235	1,359	+ 124
Total payments	2,503	2,698	+ 195	1,784	1,954	+ 170
Current account balance	- 343	- 408	- 65	- 549	- 595	- 46
United Kingdom			Other countries			
Merchandise exports (adjusted)	266	257	- 9	512	498	- 14
Merchandise imports (adjusted)	136	142	+ 6	328	347	+ 19
Balance on merchandise trade	+ 130	+ 115	- 15	+ 184	+ 151	- 33
Other current receipts	62	69	+ 7	85	107	+ 22
Other current payments	112	96	- 16	143	159	+ 16
Balance on non-merchandise transactions	- 50	- 27	+ 23	- 58	- 52	+ 6
Total receipts	328	326	- 2	597	605	+ 8
Total payments	248	238	- 10	471	506	+ 35
Current account balance	+ 80	+ 88	+ 8	+ 126	+ 99	- 27

Transactions by Areas

More than 30 per cent of Canada's substantial deficit on current transactions with the United States in the first quarter of 1965 was covered by the surplus with overseas countries. This share was about the same size two years previously; but on account of the special grain and flour deliveries on Russian account, the proportion exceeded 35 per cent in the March quarter of 1964.

Quarterly Current Account Balances

	I Q	II Q	III Q	IV Q	Year
	millions of dollars				
United States:					
1962	- 342	- 426	- 75	- 279	- 1,122
1963	- 353	- 346	- 66	- 418	- 1,183
1964	- 549	- 512	- 122	- 476	- 1,659
1965	- 595				
United Kingdom:					
1962	+ 9	+ 50	+ 53	+ 106	+ 218
1963	+ 74	+ 113	+ 93	+ 120	+ 400
1964	+ 80	+ 140	+ 156	+ 196	+ 572
1965	+ 88				
Other countries:					
1962	-	+ 6	- 22	+ 46	+ 30
1963	+ 31	+ 29	- 11	+ 177	+ 226
1964	+ 126	+ 216	+ 181	+ 111	+ 634
1965	+ 99				

were declines however, in exports of certain other basic items including aluminum, copper, uranium and aircraft. The upturn in imports reflecting the high levels of investment, incomes, and production and rising inventories in the Canadian economy is concentrated in imports from the United States.

The deficit from non-merchandise transactions with the United States was again large but comparatively stable in total. The deficit on travel was unchanged and there was a small rise in the imbalance from all other items. A rise in net payments on income account was virtually offset by a variety of smaller reductions in other items.

With the United Kingdom there was a further gain in the credit balance of \$88 million from \$80 million last year. This was brought about entirely from non-merchandise transactions as the export balance on merchandise transactions was reduced to \$115 million with a slight contraction in exports and a small gain in imports. The debit balance on non-merchandise account was reduced to a little more than half of the deficit in the previous year by shifts in income transactions between Canada and the United Kingdom and by the absence this year of some non-recurring transactions on military account which had taken place in the first quarter of last year.

With Other Countries the outstanding change was a contraction in the export balance from merchandise trade brought about by moderately lower exports and rising imports. While there was a major change through lower exports of wheat, this was offset to a considerable extent by larger sales of industrial materials. Exports of manufactured goods did not increase appreciably. Thus while exports to Eastern Europe fell sharply with the reduction in shipments of wheat and there was a small falling off in shipments to Japan, there were sizable gains in exports to the OECD countries, Australia, the Republic of South Africa and other sterling countries. At the same time increases in imports were distributed generally except from the Rest of the Sterling Area.

Canada's net payments on current account exceeded the net inflow of capital in long-term forms by \$260 million in the first quarter of 1965. This balance was smaller than the corresponding figure of \$379 million in the comparable period of 1964. The area distribution of these items appears in a statement.

In the first quarter of 1964 Canada experienced a deficit on current account with the United States of \$549 million and received from that country net capital inflows in long-term forms aggregating

At \$595 million the current account deficit with the United States was greater than in any earlier quarter and compares with \$549 million in the first quarter of 1964. This rise from the same quarter in the previous year was mainly the result of a somewhat more rapid growth in merchandise imports from the United States than in exports. Trade in each direction showed substantial rises; about 12 per cent in exports and 13 per cent in imports. But the slightly higher rate of increase in imports was enough to add considerably to the deficit. Gains in exports to the United States were spread over a number of basic industrial materials including pulp and paper, iron ore, nickel, and petroleum and also included particularly large gains in shipments of passenger cars and automobile parts and substantial increases in other manufacturing goods including agricultural and industrial machinery, whisky and iron and steel products. There

Area Distribution of Current Account Balance and Capital Movements in Long-Term Forms

Area and period		Current account balance(1)	Capital movements in long-term forms	Total of foregoing items	Total of foregoing items excluding gold production available for export
millions of dollars					
<u>United States:</u>					
1961	Year	- 1,386	931	- 455	- 617
1962	"	- 1,122	668	- 454	- 609
1963	"	- 1,183	839	- 344	- 498
1964	"	- 1,659	964	- 695	- 839
1964	I Q	- 549	34	- 515	- 548
	II Q	- 512	202	- 310	- 351
	III Q	- 122	255	133	98
	IV Q	- 476	473	- 3	- 38
1965	I Q	- 595	203	- 392	- 427
<u>United Kingdom and other overseas countries:</u>					
1961	Year	404	- 21	383	383
1962	"	248	-	248	248
1963	"	626	- 226	400	400
1964	"	1,206	- 213	993	993
1964	I Q	206	- 70	136	136
	II Q	356	- 89	267	267
	III Q	337	- 37	300	300
	IV Q	307	- 17	290	290
1965	I Q	187	- 55	132	132

(1) Including gold production available for export (attributed to United States account).

only \$34 million. The relatively small receipt reflected uncertainties surrounding the application of the Interest Equalization Tax legislation then under consideration by the United States Congress. This uncertainty served effectively to restrict Canadian issues of securities in the United States capital market, which are normally an important source of Canada's external financing. The remainder to be financed in other ways was \$515 million; if the production of new gold available for export, which is conventionally attributed to the United States, is abstracted the amount approached \$550 million. Capital inflows in short-term forms from the United States were of the order of \$300 million, and the balance was derived from transactions with other countries and a reduction in Canada's official holdings of United States dollars.

The first quarter of 1965 was affected by the introduction by United States authorities of additional measures to restore balance in their international financial position. Canada's net payments on current account with the United States were enlarged, but the enactment of the Interest Equalization Tax legislation during the summer of 1964 and the special arrangements which became effective with respect to Canada had removed a barrier to Canadian new issues and as a result the net receipt of capital in long-term forms was also larger. The balance of these groups of transactions required \$392 million (or \$427 million abstracting new gold production).

In contrast, however, to the situation a year earlier, a net capital outflow to the United States in short-term forms (even after a significant drop in private deposits of Canadians in United States dollars) offset most of the inflow from that country in long-term forms, leaving a massive balance. Settlement of this was achieved in part by drawing down official holdings of United States dollars and in part through a substantial withdrawal of funds from the rest of the world. Indeed transactions between Canada and the rest of the world gave rise to net multilateral settlements, or receipts applied on Canada's account with the United States, aggregating over \$400 million. To a considerable extent these movements arose from the important international role of the Canadian banking system. Withdrawal from the system of substantial foreign currency deposits by United States residents, together with the necessity for financing from Canadian resources a larger balance of Canada's transactions with the United States, led inevitably to a substantial liquidation of Canadian claims in United States dollars on overseas countries. These developments highlight dramatically the present interdependence of the international financial system.

Summary	1963	1964	1964				1965
			I Q	II Q	III Q	IV Q	I Q
			millions of dollars				
Capital movements in long-term forms	+ 613	+ 751	- 36	+ 113	+ 218	+ 456	+ 148
Capital movements in short-term forms(1)	+ 90	+ 65	+ 337	+ 111	- 277	- 106	+ 188
Balance on goods and services	- 557	- 453	- 343	- 156	+ 215	- 169	- 408
Change in official holdings of gold, foreign exchange, and net balance with the International Monetary Fund	+ 146	+ 363	- 42	+ 68	+ 156	+ 181	- 72

(1) Excluding items in final line.

DIRECT INVESTMENT The net inflow of foreign capital for direct investment in foreign-controlled enterprises in Canada is estimated to have totalled \$60 million in the first quarter of 1965. This compared with \$75 million in the final quarter of 1964 and with \$50 million in the first quarter of that year. Abstracting identified large transactions involving the sale or repurchase of existing assets, refinancing, etc., the funds from non-residents becoming available for new capital formation in Canada were about equal in the fourth quarter of last year and in the quarter under review, and were larger than the net movement in either quarter.

Prominent among the transactions in the first quarter were outflows to reacquire major blocks of the capital of forest products and petroleum companies, but there were inflows for the take-over of other previously Canadian-owned concerns and to provide additional resources for the financing of trade

On balance perhaps half the net movement was to the petroleum and natural gas industry, and perhaps a quarter was to mining. Large movements to and from other industrial sectors tended to be offsetting.

Geographically most of the net movement was from the United States.

Canadian direct investments abroad involved an outflow of \$35 million of capital in the first quarter, including some major transactions for the acquisition of foreign-owned concerns abroad. Most of the outflow was to the United States and was related to manufacturing activity.

SECURITY TRANSACTIONS Transactions in portfolio securities between Canada and other countries during the opening quarter of 1965 resulted in a net capital inflow of \$66 million, a substantial decline from the \$376 million inflow recorded in the previous quarter. Geographically there was a net capital inflow of \$106 million from the United States which was reduced by outflows of \$21 million and \$19 million to the United Kingdom and other overseas countries respectively.

Detail of Transactions in Foreign Securities

Item	1964				1965
	I Q	II Q	III Q	IV Q	I Q
	millions of dollars				
Outstanding issues	- 4	- 29	- 2	- 5	- 11
New Issues ...	- 4	- 10	- 5	- 8	- 26
Retirements ..	+ 2	+ 3	+ 2	+ 3	+ 3

(A minus sign indicates an outflow of capital from Canada.)

As in the four quarters of 1964 deliveries to non-residents of Canadian new issues in the first quarter of 1965, although only half the magnitude of the previous quarter, dominated international security transactions. New bond issues of corporations, over half of which were floated to meet the needs of the petroleum and natural gas industries, comprised three quarters of the \$248 million of new capital raised abroad and occupied a more significant proportion of the total than usual. The outflow for the repatriation of foreign-held outstanding Canadian securities, mainly for the repurchase of common and preference stocks, reached the unprecedented level of \$80 million during the quarter. The retirement of Canadian securities held abroad required a capital outflow of \$68 million.

New Issues of Canadian Bonds Sold to
United States Residents

Period		Offerings	Deliveries	Un- delivered(1)
millions of dollars				
1963	Year	693	904	122
1964	"	941	990	73
1964	I Q	96	130	88
	II Q	233	289	32
	III Q	293	87	238
	IV Q	319	484	73
1965	I Q	276	231	118

(1) At end of period.

programmes, were negligible. There were no capital subscriptions to international investment agencies. Repayments of principal falling due in the period amounted to \$5 million. Canada's holdings of medium term non-marketable United States government securities acquired under the Columbia River Treaty arrangement remained unchanged during the quarter at \$203.9 million expressed in United States funds.

The remaining capital movements in long-term forms in the first quarter led to a net capital inflow of \$52 million. Export financing from Canada directly or indirectly under guarantee or at the risk of the Government of Canada resulted in a net outflow of \$38 million, about two thirds of which were wheat credits to some Sino-Soviet countries. Other capital movements, mainly changes in bank loans, resulted in a net capital inflow of \$90 million.

CAPITAL MOVEMENTS IN SHORT-TERM FORMS

Canadian dollar holdings of foreigners rose by \$64 million as a result of increases of \$38 million in deposit liabilities and \$27 million in treasury bills, reduced slightly by a \$1 million fall in Government of Canada demand liabilities.

About three-quarters of the overall increase reflected transactions of international organizations and other official accounts.

Of the groups of capital movements shown separately in the supplementary statement covering "Other Capital Movements" the largest change, as is quite often the case, was in bank balances and other short-term funds abroad (excluding official reserves). Reversing the pattern of the three previous quarters holdings in these balances were reduced in the first quarter inducing a capital inflow of \$148 million. This net inflow reflected very much larger inflows from overseas countries and a substantial outflow to the United States.

Composition of "Other Capital Movements"
(A minus sign indicates an outflow of capital from Canada)

Transactions with all countries	1963	1964	1964				1965
			I Q	II Q	III Q	IV Q	I Q
			millions of dollars				
Bank balances and other short-term funds							
abroad (excluding official reserves)	- 255	- 509	152	- 124	- 160	- 377	148
Canadian commercial paper	- 23	- 11	27	- 19	- 18	- 1	- 5
Canadian finance paper	52	168	67	83	8	10	- 35
Canadian finance company obligations, n.i.e.	69	68	32	35	- 2	3	37
All other transactions(1)	233	340	36	134	- 52	222	- 21
Total (Item D 17)	76	56	314	109	- 224	- 143	+ 124

(1) Includes changes in loans and accounts receivable and payable, and also balancing item representing difference between direct measurements of current and capital accounts.

A new offering in Canadian currency by an international institution partly to re-finance an earlier issue about to mature, largely accounted for a higher than average outflow of \$26 million for Canadian acquisitions of new foreign issues. Trade in outstanding foreign securities also led to a net capital export of \$11 million with equities again in the major role. Retirements of \$3 million of foreign issues held by Canadians during the quarter did not reflect the maturity referred to, which can be expected to appear in the next quarter's figures.

OTHER CAPITAL MOVEMENT IN LONG-TERM FORMS

In the first quarter loans made by the Government of Canada to overseas countries, apart from amounts advanced under export credit

Net outflows from transactions in Canadian commercial and finance paper of \$5 million and \$35 million respectively were largely offset by the \$37 million inflow from other borrowing by Canadian finance companies (not all of which is strictly short-term). An analysis of the monthly data available indicates that a net sales balance of Canadian finance paper in January was followed by repurchase balances in both February and March. All other transactions led to a net capital outflow of \$21 million. There were large movements in both directions with important factors being a sizeable net inflow from an increase in foreign currency bank loans to residents reduced by a net outflow due to the running down of balances owing on inter-company account by Canadian subsidiaries of foreign, mainly United States, parent companies.

Official Holdings of Gold and Foreign Exchange and Canada's Balance with the IMF

Canada's official holdings of gold and foreign exchange fell by \$118 million in Canadian funds in the first quarter of 1965, the first quarterly drop in these assets since the corresponding period of 1964. Gold and United States dollar holdings declined by \$130 million while holdings of sterling increased by \$12 million. Canada's net balance with the International Monetary Fund increased in the quarter by \$46 million.

United States Dollar in Canada						Exchange holdings and IMF Balance		
		High	Low	Close	Noon average	End of period	Official holdings of gold and United States dollars	Net balance with International Monetary Fund
Canadian cents						millions of United States dollars		
1964	I Q	108.09	107.94	108.06	108.02	1963 IV Q	2,595	- 58
	II Q	108.25	108.03	108.13	108.09	1964 I Q	2,466	20
	III Q	108.22	107.50	107.50	107.87	II Q	2,534	25
	IV Q	107.63	107.25	107.38	107.46	III Q	2,625	80
						IV Q	2,674	197
1965	I Q	108.44	107.31	107.97	107.71	1965 I Q	2,554	240
						January	2,668	197
						February	2,649	212
						March	2,554	240

Official holdings of gold and United States dollars, expressed in terms of United States funds amounted to \$2,674 million at December 31, 1964 and \$2,554 at March 31, 1965. As indicated in the 1964 annual report of the Governor of the Bank of Canada, under the arrangements for the provision of credit facilities to the Bank of England, \$50 million of the holdings were on deposit with that institution at the year end.

The improvement in Canada's net International Monetary Fund position of \$42.5 million, expressed in United States funds, was occasioned entirely by drawings of Canadian dollars from the Fund by other countries.

Canada's Accounts with the International Monetary Fund

Period	Canadian assets			Canadian liabilities = IMF holdings of Canadian dollars					Canada's net balance with IMF(1)
	Transactions			Transactions					
	Sub- crip- tion (Quota)	Loans (GAB)	Total assets	Sub- crip- tions and loans	Net drawings of foreign currencies by Canada	Net drawings (-) of Cana- dian dollars by other countries	Sales of Canadian dollars to IMF for gold	Total liabi- lities	
	expressed in millions of United States dollars								
1947	300.0		300.0	225.0				225.0	75.0
1956			300.0			- 15.0		210.0	90.0
1959	250.0		550.0	187.5				397.5	152.5
1961			550.0			- 84.6	25.0	337.9	212.1
1962			550.0		300.0	50.3		688.2	- 138.2
1963			550.0		- 79.7			608.5	- 58.5
1964	1Q		550.0		- 58.8	- 20.0		529.7	20.3
	2Q		550.0			- 5.0		524.7	25.3
	3Q		550.0		- 50.0	- 5.0		469.7	80.3
	4Q	15.0	565.0	15.0	- 57.2	- 69.0	9.0	367.5	197.5
1965	1Q		565.0			- 42.5		325.0	240.0

(1) This is a cumulative measure of the net resources provided by Canada to the IMF. The Canadian dollar equivalent of the change appears as item H2 in the balance of payments statement. Canada's net balance with the IMF when positive represents the so-called "gold tranche position" plus borrowing under the General Arrangements to Borrow. This may be drawn by Canada virtually automatically on statement of balance of payments need, but Canada would then be under an obligation to restore its net balance to 25 per cent of the Quota.

Note: The statement is expressed in terms of United States dollar equivalents in accordance with the IMF practice. Since members are obligated to maintain the gold value of the IMF's holdings of their currencies, there have been adjustment payments between the IMF and Canada in Canadian dollars from time to time arising from changes in the exchange rate. These transactions are not reflected above because the series are shown in United States dollar equivalents, and do not appear in the balance of payments statements because only the change in Canada's net asset is shown. The adjustment transactions affect the Public Accounts of Canada.

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Note: Data for 1964 are preliminary and data for 1963 are subject to revision

No.		1963			
		I	II	III	IV
		millions of dollars			
A	Current receipts:				
1	Merchandise exports (adjusted)	1,486	1,776	1,806	2,014
3	Gold production available for export	41	38	36	39
4	Travel expenditures	50	132	325	102
5	Interest and dividends	42	54	42	85
6	Freight and shipping	117	140	146	157
7	Inheritances and immigrants' funds	27	38	48	36
11	All other current receipts	111	113	113	112
12	Total current receipts	1,874	2,291	2,516	2 545
B	Current payments:				
1	Merchandise imports (adjusted)	1,412	1,702	1,655	1,810
4	Travel expenditures	117	158	207	107
5	Interest and dividends	200	198	184	287
6	Freight and shipping	128	161	177	175
7	Inheritances and emigrants' funds	38	42	49	53
9	Official contributions	15	17	15	14
11	All other current payments	212	217	213	220
12	Total current payments	2,122	2,495	2,500	2,666
C	Current account balance:				
1	Merchandise trade	+ 74	+ 74	+ 151	+ 204
2	Other transactions, excluding B 9	- 307	- 261	- 120	- 311
3	Official contributions	- 15	- 17	- 15	- 14
4	Total	- 248	- 204	+ 16	- 121
D	Capital account:				
	Direct investment:				
1	Direct investment in Canada	+ 67	+ 50	+ 60	+ 63
2	Direct investment abroad	- 22	- 37	- 21	- 30
	Canadian securities:				
3.1	Trade in outstanding bonds and debentures	+ 23	+ 27	- 7	- 4
3.2	Trade in outstanding common and preference stocks	- 56	- 44	- 27	- 42
4	New issues	+ 408	+ 394	+ 100	+ 66
5	Retirements	- 52	- 173	- 40	- 70
6,7,8	Foreign securities	+ 4	+ 24	- 3	- 2
	Loans and capital subscriptions by Government of Canada:				
9	Advances, etc.	-	-	- 8	- 10
10	Repayments to Canada	-	+ 6	-	+ 19
11	Columbia River Treaty, net	-	-	-	-
13	Long-term capital transactions n.i.e.	+ 3	- 38	- 21	+ 6
	Change in Canadian dollar holdings of foreigners:				
14.1	Deposits	- 29	+ 38	- 12	+ 43
14.2	Government of Canada demand liabilities	-	- 3	-	+ 4
14.3	Canadian treasury bills	+ 9	- 17	+ 18	- 37
17	Other capital movements	- 41	+ 88	- 114	+ 143
E	Net capital movement (excluding monetary items shown below) in:				
1	Long-term forms (D1 to D13)	+ 375	+ 209	+ 33	- 4
2	Short-term forms (D14 to D17)	- 61	+ 106	- 108	+ 153
3	Total	+ 314	+ 315	- 75	+ 149
H = C+E	Official monetary movements in the form of:				
1	Change in official holdings of gold and foreign exchange	+ 66	+ 111	- 145	+ 28
2	Change in net International Monetary Fund position	-	-	+ 86	-
3	Other special international financial assistance	-	-	-	-

Notes: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in

B 1) the annual reports on "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income,

B 11) insurance transactions, and business services.

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Note: Data for 1964 are preliminary and data for 1963 are subject to revision
1965

1964				1965	Annual totals			Four quarters ended March 31, 1965	No.
I	II	III	IV	I Q	1962	1963	1964		
millions of dollars									
1,730	2,197	2,183	2,128	1,825	6,380	7,082	8,238	8,333	A
33	41	35	35	35	155	154	144	146	1
59	138	353	111	63	562	609	661	665	3
58	55	47	127	65	202	223	287	294	4
135	167	172	168	138	509	560	642	645	5
31	42	50	43	42	124	149	166	177	6
114	116	117	121	122	451	449	468	476	7
2,160	2,756	2,957	2,733	2,290	8,383	9,226	10,606	10,736	11
									12
1,697	2,048	1,827	1,966	1,882	6,203	6,579	7,538	7,723	B
155	187	233	138	152	605	589	713	710	1
231	210	202	317	231	794	869	960	960	4
140	188	191	184	147	595	641	703	710	5
40	46	53	52	40	175	182	191	191	6
12	16	22	18	23	36	61	68	79	7
228	217	214	227	223	849	862	886	881	9
2,503	2,912	2,742	2,902	2,698	9,257	9,783	11,059	11,254	11
									12
+ 33	+ 149	+ 356	+ 162	- 57	+ 177	+ 503	+ 700	+ 610	C
- 364	- 289	- 119	- 313	- 328	- 1,015	- 999	- 1,085	- 1,049	1
- 12	- 16	- 22	- 18	- 23	- 36	- 61	- 68	- 79	2
- 343	- 156	+ 215	- 169	- 408	- 874	- 557	- 453	- 518	3
									4
+ 50	+ 10	+ 30	+ 75	+ 60	+ 495	+ 240	+ 165	+ 175	D
- 40	- 45	-	- 5	- 35	- 109	- 110	- 90	- 85	1
									2
+ 4	+ 14	+ 37	+ 22	+ 4	+ 64	+ 39	+ 77	+ 77	3.1
- 44	- 8	- 5	- 40	- 84	- 116	- 169	- 97	- 137	3.2
+ 142	+ 313	+ 100	+ 498	+ 248	+ 728	+ 968	+ 1,053	+ 1,159	4
- 109	- 96	- 58	- 94	- 68	- 320	- 335	- 357	- 316	5
- 6	- 36	- 5	- 10	- 34	- 65	+ 23	- 57	- 85	6,7,8
- 2	-	-	- 8	-	- 22	- 18	- 10	- 8	9
+ 4	+ 2	+ 1	+ 2	+ 5	+ 129	+ 25	+ 9	+ 10	10
-	-	+ 54	-	-	-	-	+ 54	+ 54	11
- 35	- 41	+ 64	+ 16	+ 52	- 116	- 50	+ 4	+ 91	13
+ 19	- 9	- 37	+ 52	+ 38	- 13	+ 40	+ 25	+ 44	14.1
-	- 3	-	+ 3	- 1	- 4	+ 1	-	- 1	14.2
+ 4	+ 14	- 16	- 18	+ 27	+ 4	- 27	- 16	+ 7	14.3
+ 314	+ 109	- 224	- 143	+ 124	+ 374	+ 76	+ 56	- 134	17
- 36	+ 113	+ 218	+ 456	+ 148	+ 668	+ 613	+ 751	+ 935	E
+ 337	+ 111	- 277	- 106	+ 188	+ 361	+ 90	+ 65	- 84	1
+ 301	+ 224	- 59	+ 350	+ 336	+ 1,029	+ 703	+ 816	+ 851	2
									3
									H = C+E
- 127	+ 62	+ 97	+ 54	- 118	+ 537	+ 60	+ 86	+ 95	1
+ 85	+ 6	+ 59	+ 127	+ 46	- 378	+ 86	+ 277	+ 238	2
					- 4	-	-	-	3

Notes: D A minus sign indicates an outflow of capital from Canada.

D 1,2 Exclusive of undistributed profits.

D 17 This item includes mainly changes in private and chartered bank holdings of exchange, international money market transactions, loans, and changes in open account commercial indebtedness. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.

H 3 A minus sign indicates a receipt by Canada.

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SECOND QUARTER 1965

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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

SECOND QUARTER 1965

There was an enlarged current account deficit between Canada and other countries in both the first and second quarters of 1965 as small import balances from commodity trade appeared in contrast to the consistent export balances in the previous year. Merchandise imports rose substantially in each quarter while exports were only appreciably higher than last year in the first quarter, although maintained at a high total in the second quarter by rises in exports of industrial materials to the United States, generally offsetting drops in wheat and flour shipments to Communist countries. And the deficit from non-merchandise transactions was again higher than last year in the second quarter and in the first half year.

This widening in the current account imbalance accompanied rising levels of economic activity in Canada and the United States in the half year, and the volume of trade between the two countries was at record levels. A new factor affecting some transactions between Canada and the United States was the series of measures announced by the Government of the United States in the first quarter and subsequently, which were designed to reduce imbalance in the United States balance of payments.

Summary Statement

	1963	1964	1964			1965	
			II Q	III Q	IV Q	I Q	II Q
	millions of dollars						
Merchandise trade balance	+ 503	+ 700	+ 150	+ 354	+ 161	- 41	- 32
Deficit on non-merchandise transactions	- 1,045	- 1,133	- 298	- 140	- 322	- 356	- 328
Current account balance	- 542	- 433	- 148	+ 214	- 161	- 397	- 360
Capital movements(1)	+ 688	+ 796	+ 216	- 58	+ 342	+ 325	+ 361
Long-term forms	+ 637	+ 853(2)	+ 152	+ 223	+ 493	+ 155	+ 93
Short-term forms	+ 51	- 57	+ 64	- 281	- 151	+ 170	+ 268
Change in official holdings of gold, foreign exchange, and net balance with International Monetary Fund	+ 146	+ 363	+ 68	+ 156	+ 181	- 72	+ 1

(1) Excluding change in official exchange holdings.

(2) Including net receipts of \$54 million under the Columbia River Treaty arrangements.

Despite disturbing influences in financial markets, capital transactions in the first and second quarters of 1965 on the whole displayed more similarity than dissimilarity. The net inflow in all long-term forms declined and direct investment flows regained a relatively larger role after four quarters in which they were over-shadowed by net inflows of portfolio capital, but inflows in short-term forms rose, and official monetary movements in the second quarter were virtually in balance. There was a marked divergence regionally in movements in short-term forms with very large outflows in each quarter to the United States and larger inflows from overseas countries. In 1964 these movements had been in the opposite direction.

Current Account Transactions in the Second Quarter

The deficit on Canada's international transactions in goods and services more than doubled from \$148 million in the second quarter of 1964 to \$360 million in the same period of 1965. This balance was higher than \$209 million for the second quarter of 1963 but was about the same size as \$370 million for the period one year earlier in 1962. Approximately 85 per cent of the widening in the deficit between the second quarters of 1964 and 1965 originated from merchandise trade, with a shift from an export balance to an import balance. Imports again rose sharply, by more than 8 per cent, while the total value of exports was virtually unchanged with increased exports to the United States generally offsetting reductions in grain shipments to Eastern Europe. At the same time the deficit from non-

merchandise transactions rose by 10 per cent to \$328 million, more than reversing the contraction in the first quarter. Following the usual practice, the estimates for 1963 and 1964 have been revised.

Lessened grain shipments to the U.S.S.R. and other Communist countries contributed to a sharp deterioration in the merchandise trade balance with "other countries". Largely on account of this factor, some 85 per cent of the \$212 million expansion in the current account deficit arose from Canada's transactions with overseas countries, other than the United Kingdom. With this country, Canada's surplus narrowed a shade to \$148 million, and the current account deficit with the United States increased roughly 5 per cent to \$539 million.

The substantial decreases in the June quarter in shipments of grain and wheat flour were almost counterbalanced by enlarged exports of seeds, metallic ores and alloys, pulp, newsprint, chemicals, fertilizers, some types of machinery, automobiles and parts. Merchandise exports, adjusted for balance of payments purposes, stood at \$2,198 million and \$2,190 million in the second quarters of 1964 and 1965, respectively.

Adjusted merchandise imports rose \$174 million from \$2,048 million to \$2,222 million in the second quarter of 1965. Detailed information on imports for this recent period is not yet available. An increase of about the same absolute magnitude between the first quarters of the two years comprised higher imports of automobiles and parts, fabricated steel materials, military aircraft, some types of machinery and equipment and miscellaneous goods.

The Trade of Canada export total for the first quarter of 1965 was adjusted downward by \$25 million for deliveries of military aircraft for which progress payments had been received in previous quarters and for wheat shipped earlier. About the same amount was added to recorded imports to reflect progress payments for defence goods, which were offset in part by deliveries. A recorded surplus on merchandise trade of about \$10 million was thus transformed into a deficit of more than \$40 million. The second quarter recorded trade totals required adjustments in the opposite direction. A net amount of roughly \$20 million was added to exports for the timing of wheat shipments and for the excess of the value of aircraft deliveries over further receipts of progress payments. The Trade of Canada import total was reduced about \$12 million to reflect in the main receipts of military aircraft previously paid for; and the recorded import balance was accordingly cut down \$33 million. For the first 6 months the effect of these customary adjustments for balance of payments purposes was to expand the recorded trade deficit of \$55 million to \$73 million.

An Increase in Deficit on Non-Merchandise Transactions

All major items contributed to the \$30 million rise in the deficit on non-merchandise transactions to \$328 million in the second quarter of 1965, exceptions being migrants' funds and some elements of miscellaneous current transactions. Enlarged net payments on travel, freight and shipping services accounted for nearly 90 per cent of the increase in the deficit on "invisibles". Travel receipts gained \$14 million to \$154 million, while Canadian expenditures abroad on travel rose \$27 million to \$214 million, thereby widening the deficit by \$13 million to \$60 million in the second quarter of 1965. About 70 per cent of the addition to the travel deficit originated from transactions with the United States, with the increase in payments being double that of receipts. A decline in inland freight receipts on transportation of grain together with higher payments in the United States and abroad for transportation services to bring to Canada increased imports largely accounted for the \$14 million rise in the deficit on freight and shipping services.

Interest and Dividends: Payments			
Period	Total	Interest	Dividends
millions of dollars			
1962	794	284	510
1963	860	314	546
1964	978	336	642
1963 II Q	198	90	108
III Q	181	67	114
IV Q	285	92	193
1964 I Q	236	73	163
II Q	209	94	115
III Q	204	72	132
IV Q	329	97	232
1965 I Q	235	77	158
II Q	236	107	129

receipts on direct investment rose fairly substantially, as contrasted with a decline in the preceding quarter. Interest on the holdings of non-marketable United States Government securities (originating

With payments of interest and dividends expanding half as much again as the increase in receipts, the deficit widened by \$9 million to \$162 million. In the June quarter, dividend

Summary of Current Transactions with the United States, United Kingdom and Other Countries
1964 and 1965, and Changes Between the Periods

	1964	1965	Change	1964	1965	Change
	millions of dollars					
<u>Second quarter</u>	<u>All Countries</u>			<u>United States</u>		
Merchandise exports (adjusted)	2,198	2,190	- 8	1,128	1,271	+ 143
Merchandise imports (adjusted)	2,048	2,222	+ 174	1,410	1,552	+ 142
Balance on merchandise trade	+ 150	- 32	- 182	- 282	- 281	+ 1
Other current receipts	569	617	+ 48	374	398	+ 24
Other current payments	867	945	+ 78	604	656	+ 52
Balance on non-merchandise transactions ...	- 298	- 328	- 30	- 230	- 258	- 28
Total receipts	2,767	2,807	+ 40	1,502	1,669	+ 167
Total payments	2,915	3,167	+ 252	2,014	2,208	+ 194
Current account balance	- 148	- 360	- 212	- 512	- 539	- 27
<u>January to June</u>						
Merchandise exports (adjusted)	3,928	4,015	+ 87	2,080	2,341	+ 261
Merchandise imports (adjusted)	3,743	4,088	+ 345	2,642	2,928	+ 286
Balance on merchandise trade	+ 185	- 73	- 258	- 562	- 587	- 25
Other current receipts	1,015	1,092	+ 77	667	692	+ 25
Other current payments	1,686	1,776	+ 90	1,166	1,231	+ 65
Balance on non-merchandise transactions ...	- 671	- 684	- 13	- 499	- 539	- 40
Total receipts	4,943	5,107	+ 164	2,747	3,033	+ 286
Total payments	5,429	5,864	+ 435	3,808	4,159	+ 351
Current account balance	- 486	- 757	- 271	- 1,061	- 1,126	- 65
<u>Second quarter</u>	<u>United Kingdom</u>			<u>Other Countries</u>		
Merchandise exports (adjusted)	324	306	- 18	746	613	- 133
Merchandise imports (adjusted)	171	157	- 14	467	513	+ 46
Balance on merchandise trade	+ 153	+ 149	- 4	+ 279	+ 100	- 179
Other current receipts	86	96	+ 10	109	123	+ 14
Other current payments	87	97	+ 10	176	192	+ 16
Balance on non-merchandise transactions ...	- 1	- 1	-	- 67	- 69	- 2
Total receipts	410	402	- 8	855	736	- 119
Total payments	258	254	- 4	643	705	+ 62
Current account balance	+ 152	+ 148	- 4	+ 212	+ 31	- 181
<u>January to June</u>						
Merchandise exports (adjusted)	589	563	- 26	1,259	1,111	- 148
Merchandise imports (adjusted)	306	298	- 8	795	862	+ 67
Balance on merchandise trade	+ 283	+ 265	- 18	+ 464	+ 249	- 215
Other current receipts	155	171	+ 16	193	229	+ 36
Other current payments	196	192	- 4	324	353	+ 29
Balance on non-merchandise transactions ...	- 41	- 21	+ 20	- 131	- 124	+ 7
Total receipts	744	734	- 10	1,452	1,340	- 112
Total payments	502	490	- 12	1,119	1,215	+ 96
Current account balance	+ 242	+ 244	+ 2	+ 333	+ 125	- 208

from the financial arrangements for the Columbia River Treaty) was received in the second quarter of 1965. Dividend outflows rose \$14 million to \$129 million, mainly due to larger dividends paid by subsidiaries in Canada to their foreign parents. Interest payments were up \$13 million to \$107 million, following sizable sales of provincial, municipal and corporate bonds in 1964. Official contributions increased from \$16 million to \$21 million; and gold production available for export at \$34 million was \$7 million lower than \$41 million, the highest quarterly total during 1964. An improvement of \$10 million to a surplus of \$8 million in the second quarter of 1965 for inheritances and migrants' funds was due to enhanced receipts from higher immigration and larger average immigrant's funds.

Current Account Transactions in the First Six Months

At \$757 million, Canada's current account deficit for the first 6 months of 1965 stood \$271 million or about 55 per cent over that of \$486 million in the same period of 1964. Much of this expansion happened in the second quarter when in 1964 the favourable effects of shipments of Russian wheat and flour were still prominent. The outline of the changes between the first halves of 1964 and 1965 is similar to that described between the second quarters of the two years. The widening in the current account imbalance occurred almost all in merchandise trade, and the major part in Canada's transactions with overseas countries, other than the United Kingdom.

Notwithstanding a decline of more than \$200 million in shipments of wheat and flour between the first two quarters of 1964 and 1965, adjusted merchandise exports rose about 2 per cent from \$3,928 million to \$4,015 million. Some other commodities including barley, tobacco, uranium, railway rolling stock, aircraft and synthetic rubber and plastic materials registered slightly lower exports. But on the other hand, a gain of over \$70 million took place in exports of passenger cars and motor vehicle parts, with each class sharing the large increase about equally. Shipments of non-ferrous ores and alloys were more than \$60 million higher. Exports of newsprint were more than \$20 million greater and of wood pulp over \$15 million more. Machinery as a group rose nearly \$28 million. Smaller increases were seen in shipments of fabricated steel materials, iron ores, petroleum and natural gas, chemicals and fertilizer.

Merchandise imports rose roughly 9 per cent from \$3,743 million to \$4,088 million in the first half year 1965. This increase was distributed over many commodities judging from details for the earlier part of the period but with some indicated concentration in machinery and equipment, automobiles and parts and certain industrial materials.

Average import prices, which were fractionally lower in the last half of 1964, slipped about one per cent below the year-before level in the first quarter of 1965. On the other hand, average prices of Canadian exports, which were roughly two per cent higher in the second half of 1964, continued to be higher by about 1 1/2 per cent in each of the first two quarters of 1965.

Deficit on Services and Other Non-Merchandise Items in the Half Year

A widening of nearly 2 per cent, from \$671 million to \$684 million, occurred in the net payments on non-merchandise transactions. Offsetting effects of the changes in the individual items held down this overall deterioration. Travel, official contributions and interest and dividends contributed moderately to increasing the deficit on non-merchandise transactions, as did also the \$5 million decline to \$69 million in the value of gold production available for export. At \$80 million, the deficit for the first half of 1965 in travel transactions with the United States had climbed back to the same level as that for the first half of 1962, but Canada's deficit on travel with overseas countries increased \$14 million between these two periods to \$69 million.

Net payments for freight and shipping services rose \$21 million to \$34 million while the deficit of \$10 million on inheritances and migrants' funds swung to a surplus of \$10 million, for similar reasons suggested in the analysis of the June quarter developments. The deficit on government account, excluding official contributions, declined in the first half of 1965, largely due to the fairly substantial settlement with allied authorities in the first quarter of 1964 of Canada's share of the common defence costs in Korea. Net payments on business services declined somewhat on account of a larger increase in the receipts.

At \$332 million, the deficit on interest and dividends stood at the highest level and accounted for more than 48 per cent of total net payments on non-merchandise transactions. This proportion corresponded with the average for the first half of the four recent years. The percentage shares for travel expenditures at nearly 22 per cent, freight and shipping services at 5 per cent and official contributions at more than 6 per cent were somewhat higher than the 4-year averages for the first two

quarters. The proportion of nearly 30 per cent for miscellaneous current transactions was lower than the average, and the small surplus for inheritances and migrants' funds in the first half of 1965 was in contrast to small deficits in the preceding three years.

Major Items in the Balance on Non-Merchandise Transactions

	First six months				Change in 1965
	1962	1963	1964	1965	
	millions of dollars				
Gold production available for export	+ 81	+ 79	+ 74	+ 69	- 5
Travel expenditures	- 135	- 92	- 138	- 149	- 11
Interest and dividends	- 315	- 294	- 324	- 332	- 8
Freight and shipping	- 43	- 34	- 13	- 34	- 21
Inheritances and migrants' funds	- 23	- 18	- 10	+ 10	+ 20
Official contributions	- 21	- 33	- 28	- 44	- 16
All other current transactions	- 209	- 203	- 232	- 204	+ 28
Balance on non-merchandise transactions ...	- 665	- 595	- 671	- 684	- 13

Transactions by Areas

Canada's deficit with the United States in the exchange of current goods and services expanded 6 per cent from \$1,061 million in the first half of 1964 to \$1,126 million in the same period of 1965. About 40 per cent of this increase was ascribable to merchandise trade, with exports advancing \$261 million, or more than 12 per cent, to \$2,341 million, and imports rising \$286 million, or nearly 11 per cent, to \$2,928 million. Substantial increases took place in exports to the United States of newsprint and wood pulp in the second quarter and first half of 1965. Shipments were also larger for such commodities as whisky, fish, iron ores, non-ferrous metals, natural gas, fertilizers, fabricated steel materials, industrial and agricultural machinery and automobile parts. There were slight declines in exports of asbestos, lumber and uranium.

Travel Expenditures

	First six months				Change in 1965
	1962	1963	1964	1965	
millions of dollars					
United States:					
Receipts	150	157	173	182	+ 9
Payments	230	189	240	262	+ 22
Balance	- 80	- 32	- 67	- 80	- 13
Overseas:					
Receipts	23	23	26	35	+ 9
Payments	78	83	97	104	+ 7
Balance	- 55	- 60	- 71	- 69	+ 2
All countries:					
Receipts	173	180	199	217	+ 18
Payments	308	272	337	366	+ 29
Balance	- 135	- 92	- 138	- 149	- 11

Increases in the deficits on travel expenditures and on interest and dividends accounted entirely for the \$40 million addition to the deficit of \$499 million for all non-merchandise transactions for the first half of 1964. The changes to the other component balances were small and offsetting. Travellers from the United States spent a total of \$182 million in the first two quarters of 1965, up \$9 million over the same period of 1964. At the same time Canadian expenditures in the United States for travel rose \$22 million to \$262 million. All of the \$27 million increase in the deficit on interest and dividends was derived from larger payments to the United States, for reasons mentioned before, as the rise in interest receipts between the first halves of 1964 and 1965 was almost offset by receipts of extraordinary dividends on direct investment in early 1964.

Quarterly Current Account Balances

	I Q	II Q	III Q	IV Q	Year
	millions of dollars				
United States:					
1962	- 342	- 426	- 75	- 279	- 1,122
1963	- 348	- 345	- 60	- 409	- 1,162
1964	- 549	- 512	- 115	- 479	- 1,655
1965	- 587	- 539			
United Kingdom:					
1962	+ 9	+ 50	+ 53	+ 106	+ 218
1963	+ 81	+ 116	+ 97	+ 120	+ 414
1964	+ 90	+ 152	+ 160	+ 205	+ 607
1965	+ 96	+ 148			
Other countries:					
1962	-	+ 6	- 22	+ 46	+ 30
1963	+ 29	+ 20	- 13	+ 170	+ 206
1964	+ 121	+ 212	+ 169	+ 113	+ 615
1965	+ 94	+ 31			

(due to a rise and fall of about the same relative magnitude, respectively, in merchandise exports and imports) offset in part some deterioration in the balance with other OECD (Europe) countries and, in particular, the remaining countries. In each of the broad geographical areas, the large shifts in the current account balances originated almost wholly from merchandise transactions. The increases in exports and imports from the other OECD groups and the rise in imports from the remaining countries were light in magnitude when compared with the massive fall in Canada's exports to the latter area. Lowered shipments of wheat and flour to Communist countries accounted for more than 80 per cent of the contraction in the merchandise trade surplus and well over 90 per cent of the reduction in merchandise exports to the other countries group. Canadian exports were down in the first half of 1965 to countries such as Japan, Brazil and Mexico but were higher to other Latin American countries including Peru and Venezuela.

Canada's current account deficit with the United States in the first half of 1965, excluding gold production available for export which is conventionally attributed to the United States account, totalled \$1,195 million compared with \$1,135 million in the corresponding period of 1964. Capital inflows from the United States in long-term forms produced \$367 million and \$307 million respectively in these periods. Testifying largely to the efficacy of measures in the United States to improve its balance of payments position, capital outflows from Canada in short-term forms, aggregating \$339 million in 1965, contrasted with inflows of \$604 million in the corresponding period of 1964. The overall result, apart from changes in Canada's official holdings of gold and foreign exchange, left an amount of \$1,167 million to be financed by other transactions in the first half of 1965. This may be compared with \$224 million in the first half of 1964.

This massive imbalance with the United States in 1965 was settled to the extent of about one-fifth by reductions in Canada's official holdings of foreign exchange in that country, and the remainder involved application of the funds derived on balance from transactions with the rest of the world, including other official holdings of gold and foreign exchange, transactions with the International Monetary Fund and new gold production available for export.

At \$244 million, the current account surplus with the United Kingdom for the first six months of 1965 was just a shade above that for the same period in 1964. The surplus on merchandise trade was reduced \$18 million, or about 6 per cent, from \$283 million to \$265 million. This resulted from a larger decline in exports from \$589 million to \$563 million than in imports from \$306 million to \$298 million. Exports of tobacco, iron ores, copper, nickel, plywood, veneers, newsprint and fabricated steel materials were lower; while shipments of oil seed cake, zinc, lead, precious metals and aircraft rose.

The settlement of common defence costs in early 1964 together with other factors such as lowered payments and higher receipts of interest and dividends and increased business service receipts combined to cut the deficit on non-merchandise transactions by \$20 million to \$21 million.

In transactions with other countries, a fairly substantial improvement in Canada's surplus with the Rest of the Sterling Area

These relationships are shown in a new statement which replaces the previously published statement showing an area distribution of only the current account balances and capital movements in long-term forms. This statement also shows all transactions between Canada and the United Kingdom and other overseas countries. With these countries Canada's surplus from current account transactions in the first half of 1965 was \$369 million, which compared with \$575 million in the corresponding period of 1964. Net capital outflows in long-term forms amounted in the six month periods to \$119 million in 1965 and \$170 million in 1964. But in sharp contrast there were inflows in short-term forms aggregating \$777 million in 1965 compared with outflows of \$229 million in 1964. This swing of more than a billion dollars on balance reflected largely a shift in the foreign currency operations of the Canadian Chartered Banks which increased their net foreign claims on residents of overseas countries by \$215 million in the first half of 1964 but reduced them by \$755 million a year later.

Financing of Canada's Bilateral Account with the United States

	1961	1962	1963	1964	1964				1965	
					I Q	II Q	III Q	IV Q	I Q	II Q
	millions of dollars									
<u>Transactions with the United States(1)</u>										
Current account balance	- 1,548	- 1,277	- 1,316	- 1,800	- 582	- 553	- 151	- 514	- 622	- 573
Capital movements in long-term forms	+ 931	+ 668	+ 843	+ 1,087	+ 56	+ 251	+ 266	+ 514	+ 204	+ 163
Capital movements in short-term forms	+ 435	+ 423	+ 7	+ 668	+ 306	+ 298	- 142	+ 206	- 195	- 144
Total	- 182	- 186	- 466	- 45	- 220	- 4	- 27	+ 206	- 613	- 554
<u>Financing</u>										
Gold production available for export	+ 162	+ 155	+ 154	+ 145	+ 33	+ 41	+ 36	+ 35	+ 35	+ 34
Transactions with rest of world:										
Current account balance	+ 404	+ 248	+ 620	+ 1,222	+ 211	+ 364	+ 329	+ 318	+ 190	+ 179
Capital movements in long-term forms	- 21	-	- 206	- 234	- 71	- 99	- 43	- 21	- 49	- 70
Capital movements in short-term forms	- 73	- 62	+ 44	- 725	+ 5	- 234	- 139	- 357	+ 365	+ 412
Increase (-) in official Canadian holdings of gold, foreign exchange, net asset with the IMF, etc.										
Total	+ 182	+ 186	+ 466	+ 45	+ 220	+ 4	+ 27	- 206	+ 613	+ 554

(1) Excluding gold production available for export and changes in official monetary assets, shown with financing.

Capital Movements - Summary

There was a decline in the net inflow of capital in long-term forms to \$93 million in the second quarter, the lowest quarterly capital inflow since the small first quarter outflow of 1964. The inflow was equal to about one quarter of the current account deficit of \$360 million. Transactions in official holdings of gold and foreign exchange and with the International Monetary Fund were largely offsetting with the remainder of the resources serving to finance the current account deficit being provided by a net inflow of capital in short-term forms amounting to \$268 million.

The main capital inflow in long-term forms continued to arise from the sale to non-residents of Canadian new issues, augmented in the quarter under review by larger than usual inflows for direct investment. The main outflows were for the retirement of outstanding Canadian securities, the repatriation of Canadian equities and the repayment of banking and other loans.

Capital movements in short-term forms were dominated by inflows from the net reduction of bank balances and other short-term funds abroad, an overall increase in the short-term indebtedness of Canadian finance companies to foreigners and an increase in Canadian Chartered Banks' foreign currency

loans to residents. Non-residents reduced their holdings of Canadian dollars reversing the movements of the previous period. The global data for this group of transactions conceal wide regional differences involving outflows to the United States and inflows from the rest of the world which have already been noted.

Summary	1963	1964	1964				1965	
			I Q	II Q	III Q	IV Q	I Q	II Q
			millions of dollars					
Capital movements in long-term forms	+ 637	+ 853	- 15	+ 152	+ 223	+ 493	+ 155	+ 93
Capital movements in short-term forms(1) +	51	- 57	+ 311	+ 64	- 281	- 151	+ 170	+ 268
Balance on goods and services	- 542	- 433	- 338	- 148	+ 214	- 161	- 397	- 360
Change in official holdings of gold, foreign exchange, and net balance with the International Monetary Fund	+ 146	+ 363	- 42	+ 68	+ 156	+ 181	- 72	+ 1

(1) Excluding items in final line.

DIRECT INVESTMENT Net inflows of foreign capital for long-term direct investment in non-resident controlled enterprises rose sharply in the second quarter to an estimated total of \$120 million. At this level they were higher than in any earlier quarter since 1962, and were nearly twice the total of \$65 million for the first quarter. Manufacturing received by far the largest share of the inflow, followed by petroleum and natural gas and then by mining and financial concerns. The net inflow in the first half of 1965 amounted to \$185 million, which was \$72 million higher than for the corresponding period of 1964.

The regular mid-year review of the private and public investment outlook in Canada indicated that investment plans for 1965 had been revised upwards and, if accomplished, would represent an increase of nearly 19 per cent over the 1964 level. It is interesting to note that the manufacturing component rose by one third. Substantial capital inflows have been a normal concomitant of heavy capital formation in Canada but it may be noted that inflows of foreign capital now tend to play a relatively smaller role due to the increasing amounts of savings generated internally within the Canadian economy.

SECURITY TRANSACTIONS The foreign capital import of \$51 million resulting from transactions in portfolio securities between Canada and other countries during the second quarter of 1965 marked the fifth and smallest successive quarterly sales balance since the first quarter of last year. The pattern of capital flows during the second quarter was similar to the previous quarter with a net inflow of \$74 million from the United States being reduced by net purchases abroad of \$19 million and \$4 million from the United Kingdom and other countries respectively.

New Issues of Canadian Bonds Sold to United States Residents

Period	Offerings	Deliveries	Un-delivered(1)
millions of dollars			
1963 Year	693	904	122
1964 "	997	1,054	65
1964 I Q	91	125	88
II Q	238	294	32
III Q	309	103	238
IV Q	359	532	65
1965 I Q	344	267	142
II Q	264	295	111

Detail of Transactions in Foreign Securities

Item	1964				1965	
	I Q	II Q	III Q	IV Q	I Q	II Q
millions of dollars						
Outstanding issues	- 5	- 31	- 4	- 6	- 11	- 13
New issues ...	- 4	- 10	- 5	- 8	- 27	- 6
Retirements ..	+ 2	+ 3	+ 2	+ 3	+ 3	+ 14
Total	- 7	- 38	- 7	- 11	- 35	- 5

(1) At end of period.

(A minus sign indicates an outflow of capital from Canada).

Canadian securities drew on balance \$56 million of non-resident owned capital during the quarter as compared with \$135 million in the preceding quarter. The proceeds of new issues rose slightly to \$301 million. An unusual Canadian flotation abroad, technically, was that of a provincial utility which invited tenders from New York underwriters for a public issue rather than arranging a private placement. Net outflows for the repatriation of outstanding Canadian equities of \$83 million continued at the same high level as in the first quarter, while a larger net inflow of \$16 million was recorded from the sale of outstanding Canadian bonds and debentures. Retirements of Canadian securities were unusually high at \$178 million mainly due to the financial reorganization of a finance company after its acquisition by new interests in the United States. Other effects of this reorganization appear elsewhere in the balance of payments accounts. It is interesting to note that a major Canadian railway company announced that as of the end of the first quarter of 1965 Canadian ownership for the first time exceeded 50 per cent. This would indicate that almost one third of the total net outflow for the repurchase from non-residents of Canadian equities in the five quarters up to March 31, 1965 was for this company's shares.

Transactions in foreign securities in the second quarter led to a net capital outflow of \$5 million, some \$30 million below that of the previous quarter. The main cause of the change was an inflow in the second quarter for the retirement of a Canadian dollar issue of an international investment agency. In the first quarter the same institution had floated a new issue in Canada in Canadian currency which contributed to the large outflow recorded for foreign security transactions. Geographically capital movements emanating from transactions with such international investment agencies are allocated to "other countries".

OTHER CAPITAL FLOWS IN LONG-TERM FORMS Among other capital flows in long-term forms in the second quarter was the receipt of a regular principal repayment of \$2.3 million from Belgium; there were no other inter-governmental loan transactions or subscriptions to international investment agencies. Repayments on the intergovernmental loans made by Canada under Part II of the Export Credits Insurance Act following World War II have been relatively small since the prepayments made by several countries in 1962.

There were outflows during the quarter of \$58 million representing the financing of exports directly or indirectly at risk of the Government of Canada. Programmes cover agricultural products, aircraft, and a wide range of other capital equipment supplied to developing countries. The corresponding outflow in the first quarter was \$43 million, and the total of \$101 million in the first half of 1965 may be compared with the total of \$164 million for the full year 1964.

All other capital transactions in long-term forms in the second quarter led to a net outflow of \$22 million, following an inflow of \$63 million from this group of transactions in the first quarter. For the most part these flows represented bank loans and repayments, although long-term trade credits and other loans, capital movements in connection with insurance operations, and real estate transactions also contributed.

CAPITAL MOVEMENTS IN SHORT-TERM FORMS Capital movements in short-term forms in the second quarter led on balance to an inflow of \$268 million compared with an inflow of \$170 million in the previous quarter.

Canadian dollar deposits of non-residents were reduced by \$37 million in the second quarter, practically offsetting the increase of \$38 million in the first quarter. Demand liabilities of the Government of Canada to non-residents fell \$3 million, and foreign-owned holdings of treasury bills also declined by \$10 million. On balance about three-fifths of the outflow of \$50 million in the second quarter reduced Canadian dollar liabilities to international organizations and other official accounts. The movements in the second quarter thus involved a substantial reversal of the inflows in the preceding quarter.

Of the groups of capital movements specified separately in the supplementary statement covering "Other Capital Movements", which in total resulted in a capital inflow of \$318 million, the largest change was again in Canadian holdings of bank balances and other short-term funds abroad (excluding official reserves). Following the outflow of capital consequent on the build up of these balances by \$675 million during the last three quarters of 1964, capital returned to Canada as these balances were reduced by \$141 million and \$164 million in the succeeding quarters of 1965. In each case these inflows of capital reflected very much larger inflows from overseas countries and substantial outflows to the United States. Data recently published by the Bank of Canada covering the foreign currency assets and liabilities of the Chartered Banks in Canada are discussed in a technical note below.

Composition of "Other Capital Movements"
(A minus sign indicates an outflow of capital from Canada)

	1963	1964	1964				1965	
			I Q	II Q	III Q	IV Q	I Q	II Q
	millions of dollars							
Bank balances and other short-term funds								
abroad (excluding official reserves)	- 258	- 524	+ 151	- 127	- 164	- 384	+ 141	+ 164
Canadian commercial paper	- 23	- 11	+ 27	- 19	- 18	- 1	- +	2
Canadian finance paper	+ 93	+ 176	+ 93	+ 104	+ 3	- 24	- 36	- 28
Canadian finance company obligations, n.i.e. +	+ 35	+ 17	- 1	+ 1	- 16	+ 33	+ 25	+ 94
All other transactions(1)	+ 187	+ 241	+ 17	+ 103	- 66	+ 187	- 24	+ 86
Total (Item D 17)	+ 34	- 101	+ 287	+ 62	- 261	- 189	+ 106	+ 318

(1) Includes changes in loans and accounts receivable and payable, and also balancing item representing difference between direct measurements of current and capital accounts.

Particular interest attaches to figures for transactions in commercial and finance paper during the second quarter, which were affected by a number of special influences and factors. This was the first full quarter since guide lines for the behaviour of United States investors were set out by the United States Administration. Superimposed on this influence were the reorganization of the financial structure of a company following its acquisition by new interests in the United States, and late in the quarter a severe shock to the market arising from the default of a large Canadian borrower.

Some \$2 million on balance of Canadian commercial paper (including also minor amounts of provincial guaranteed paper and negotiable term notes of Canadian chartered banks, but excluding financing subsidiaries of merchandisers and manufacturers) was acquired by non-residents in the second quarter, following a first quarter in which there had been no change in holdings. Holdings owned by non-residents at mid-year were of the order of \$20 million.

Short-term Canadian finance company paper in the hands of non-residents fell by \$28 million in the second quarter bringing the outflow for the half-year to \$64 million, and reducing holdings to about \$400 million at mid-year. Part of the second quarter outflow was directly offset by inflows in other forms.

Transactions in Canadian finance company obligations n.i.e. (which include borrowings from foreign banks and advances from parent companies) resulted in net inflows of \$94 million in the second quarter following net inflows of \$25 million in the preceding quarter. Here again substantial offsets, this time in the form of outflows, are included elsewhere.

Other finance company transactions which are not shown separately are included with capital movements in long-term forms, notably in new issues and retirements of Canadian securities and in the n.i.e. item of this group. All in all, the international borrowing of these companies led to net inflows of somewhat under \$20 million in each of the first two quarters of 1965.

All other transactions led to a net capital inflow of \$86 million. Important in this inflow were increases in short-term foreign currency banking loans to Canadians. As noted elsewhere in this report these include foreign currency loans made by Canadian Chartered Banks in Canada and abroad.

Official Holdings of Gold and Foreign Exchange and Canada's Balance with the IMF

Canada's official holdings of gold and foreign exchange decreased by \$92 million in Canadian funds in the second quarter of 1965, while Canada's net balance with the International Monetary Fund rose by \$93 million. In the first quarter of the year Canada's official holdings of gold and foreign exchange declined by \$118 million, and the Canadian balance with the International Monetary Fund rose by \$46 million.

Official holdings of gold and United States funds, expressed in terms of United States dollars, were reduced from \$2,554 million at the end of the first quarter to \$2,480 million at the end of the second. At the beginning of the year they had been \$2,674 million. The change in the second quarter,

United States Dollar in Canada

Exchange holdings and IMF Balance

						Official holdings of gold and United States dollars			Net balance with Inter-national Monetary Fund
Period		High	Low	Close	Noon average	End of period			
Canadian cents						millions of United States dollars			
1964	I Q	108.09	107.94	108.06	108.02	1964	I Q	2,466	20
							II Q	2,534	25
	II Q	108.25	108.03	108.13	108.09		III Q	2,625	80
							IV Q	2,674	197
	III Q	108.22	107.50	107.50	107.87	1965	I Q	2,554	240
IV Q	107.63	107.25	107.38	107.46	II Q		2,480	327	
					April		2,567	245	
1965	I Q	108.44	107.31	107.97	107.71	May	2,499	327	
	II Q	108.38	107.72	108.34	108.04	June	2,480	327	

Canada's Accounts with the International Monetary Fund

	Canadian assets			Canadian liabilities = IMF holdings of Canadian dollars					Canada's net balance with IMF(1)
Period	Transactions		Total assets	Transactions				Total liabi- lities	
	Subs- crip- tion (Quota)	Loans (GAB)		Subs- crip- tions and loans	Net drawings of foreign currencies by Canada	Net drawings (-) of Cana- dian dollars by other countries	Sales of Canadian dollars to IMF for gold		
expressed in millions of United States dollars									
1947	300.0		300.0	225.0				225.0	75.0
1956			300.0			- 15.0		210.0	90.0
1959	250.0		550.0	187.5				397.5	152.5
1961			550.0			- 84.6	25.0	337.9	212.1
1962			550.0		300.0	50.3		688.2	- 138.2
1963			550.0		- 79.7			608.5	- 58.5
1964		15.0	565.0	15.0	- 166.0	- 99.0	9.0	367.5	197.5
1965	1Q		565.0			- 42.0		325.0	240.0
	2Q	35.0	600.0	35.0		- 114.0	27.5	273.5	326.5

(1) This is a cumulative measure of the net resources provided by Canada to the IMF. The Canadian dollar equivalent of the change appears as item H2 in the balance of payments statement. Canada's net balance with the IMF when positive represents the so-called "gold tranche position" plus borrowing under the General Arrangements to Borrow (GAB). This may be drawn by Canada virtually automatically on statement of balance of payments need, but Canada would then be under an obligation to restore its net balance to 25 per cent of the Quota.

Note: The statement is expressed in terms of United States dollar equivalents in accordance with the IMF practice. Since members are obligated to maintain the gold value of the IMF's holdings of their currencies, there have been adjustment payments between the IMF and Canada in Canadian dollars from time to time arising from changes in the exchange rate. These transactions are not reflected above because the series are shown in United States dollar equivalents, and do not appear in the balance of payments statements because only the change in Canada's net asset is shown. The adjustment transactions affect the Public Accounts of Canada.

expressed in Canadian dollars, was a decline of \$80 million. The balance of the change in official holdings of gold and foreign exchange represented a decline of \$12 million of sterling, which was roughly equal to the increase in the first quarter.

Canada's so-called "gold tranche position" with the International Monetary Fund together with loans made under the General Arrangements to Borrow, rose from \$240.0 million, expressed in United States dollars, at the beginning of the quarter to \$326.5 million at the end. The most important factor in the change was the balance of payments assistance extended through the IMF during May to the United Kingdom. A drawing of \$1,400 million by the United Kingdom included the Canadian dollar equivalent of \$107.5 million in United States dollars. Part of this amount was obtained by the IMF simultaneously buying with gold from the Exchange Fund Account Canadian funds equal to \$27.5 million. The remaining \$80 million directly increased Canada's net balance with the IMF (including funds made available to it under the GAB). Drawings and repayments in Canadian dollars by other countries further augmented Canada's balance with the IMF by \$6.5 million. Overall these transactions increased Canada's net balance with the IMF by \$93 million expressed in Canadian funds.

Technical Note: Foreign Currency Assets and Liabilities of the Chartered Banks in Canada

Since the first quarter report was published additional information on the foreign currency assets and liabilities of Chartered Banks in Canada, classified by currency and by type and country of residence of bank customers, has been made available by the Bank of Canada in its Statistical Summary, commencing with the August issue. The data show the following changes in the net foreign currency assets of Chartered Banks in Canada. The gross changes in the asset and liability components are revealed to be much larger.

Net foreign currency assets with residents of	1964 Year	I Q 1965	II Q 1965
	millions of dollars		
United States	- 289	+ 113	+ 180
United Kingdom	+ 552	- 166	- 320
Other Countries	+ 37	- 161	- 108
Total non-resident	+ 300	- 214	- 248
Canada	- 331	+ 265	+ 206
Total	- 31	+ 51	- 42

The net capital outflow of \$300 million in 1964 and the subsequent inflows of \$214 million and \$248 million in the first two quarters of 1965 arising from the foreign currency operations of the Canadian banks in Canada are among the capital movements covered in Canada's balance of payments but cannot be identified in the statements as they are presented. They are divided into three components as described in the paragraph below.

The behaviour of deposits in foreign currency belonging to residents of Canada is not generally influenced by whether they represent claims on Canadian or non-Canadian banks. Accordingly, residents' holdings of foreign currency deposits, whether with Canadian or foreign banks, have been included in the item "Bank balances and other short-term

funds abroad" which also includes the net spot foreign currency assets of the Canadian banks in Canada. Similarly, foreign currency borrowing by Canadians, whether from Canadian or foreign banks, is included in the items for miscellaneous capital movements either in long-term (D.13) or in short-term (D.17) forms. The components of these three items relating to foreign currency operations of the Chartered Banks in Canada are equal to the change in the net foreign currency assets with non-residents as revealed in the newly published data. A bilateral adjustment is included in the first item but does not affect global figures.

Thus, Canadian balance of payments global statistics historically have been designed to exclude matching foreign banking assets and liabilities denominated in foreign currencies whether held in Canada or abroad, on the grounds that the business is by nature largely "extra Canadian" and has only limited direct significance for the Canadian economy. (Foreign currency operations of the Canadian banking system are treated somewhat similarly in the principal series of banking statistics in Canada). This concept has been retained. But for the period since 1963 bilateral statements have been based on the new data which identify the residency of banking claims as well as their currency which was the only basis of allocation earlier. The discontinuity in the series at the end of 1963 implied an accumulated overstatement of net inflows from the United States and the United Kingdom of the order of \$200 million and \$250 million respectively, and a corresponding understatement of inflows from other overseas countries.

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Note: Data for 1965 are preliminary and data for 1964 are subject to revision

	1963				1964
	I	II	III	IV	I
	millions of dollars				
Current receipts:					
Merchandise exports (adjusted)	1,486	1,776	1,806	2,014	1,730
Gold production available for export	41	38	36	39	33
Travel expenditures	51	129	325	104	59
Interest and dividends	45	55	44	86	65
Freight and shipping	117	141	148	157	135
Inheritances and immigrants' funds	27	38	48	38	32
All other current receipts	117	119	119	118	122
Total current receipts	1,884	2,296	2,526	2,556	2,176
Current payments:					
Merchandise imports (adjusted)	1,412	1,702	1,655	1,810	1,695
Travel expenditures	114	158	204	109	150
Interest and dividends	196	198	181	285	236
Freight and shipping	128	164	178	178	137
Inheritances and emigrants' funds	39	44	50	53	40
Official contributions	15	18	16	16	12
All other current payments	218	221	218	224	244
Total current payments	2,122	2,505	2,502	2,675	2,514
Current account balance:					
Merchandise trade	+ 74	+ 74	+ 151	+ 204	+ 35
Other transactions, excluding B 9	- 297	- 265	- 111	- 307	- 361
Official contributions	- 15	- 18	- 16	- 16	- 12
Total	- 238	- 209	+ 24	- 119	- 338
Capital account:					
Direct investment:					
Direct investment in Canada	+ 78	+ 48	+ 74	+ 80	+ 69
Direct investment abroad	- 31	- 42	- 29	- 33	- 44
Canadian securities:					
Trade in outstanding bonds and debentures	+ 23	+ 27	- 7	- 4	+ 4
Trade in outstanding common and preference stocks	- 57	- 44	- 27	- 42	- 44
New issues	+ 410	+ 405	+ 94	+ 75	+ 138
Retirements	- 64	- 198	- 55	- 87	- 109
Foreign securities	+ 3	+ 23	- 4	-	- 7
Loans and capital subscriptions by Government of Canada:					
Advances, etc.	-	-	- 8	- 10	- 2
Repayments to Canada	-	+ 6	-	+ 19	+ 4
Columbia River Treaty, net	-	-	-	-	-
Long-term capital transactions n.i.e.	+ 19	- 21	- 11	+ 27	- 24
Change in Canadian dollar holdings of foreigners:					
Deposits	- 28	+ 38	- 11	+ 44	+ 20
Government of Canada demand liabilities	-	- 3	- 1	+ 5	-
Canadian treasury bills	+ 9	- 17	+ 18	- 37	+ 4
Other capital movements	- 58	+ 98	- 116	+ 110	+ 287
Net capital movement (excluding monetary items shown below) in:					
Long-term forms (D1 to D13)	+ 381	+ 204	+ 27	+ 25	- 15
Short-term forms (D14 to D17)	- 77	+ 116	- 110	+ 122	+ 311
Total	+ 304	+ 320	- 83	+ 147	+ 296
Official monetary movements in the form of:					
Change in official holdings of gold and foreign exchange	+ 66	+ 111	- 145	+ 28	- 127
Change in net International Monetary Fund position	-	-	+ 86	-	+ 85
Other special international financial assistance	-	-	-	-	-

Notes: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in B 1) the annual reports on "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income,

B 11) insurance transactions, and business services.

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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Note: Data for 1965 are preliminary and data for 1964 are subject to revision

1964			1965		Annual totals			Four quarters ended June 30, 1965	No.
II	III	IV	I	II	1962	1963	1964		
millions of dollars									
2,198	2,182	2,130	1,825	2,190	6,380	7,082	8,240	8,327	A 1
41	36	35	35	34	155	154	145	140	3
140	351	112	63	154	562	609	662	680	4
56	51	141	65	74	202	230	313	331	5
165	176	169	138	167	509	563	645	650	6
43	50	44	42	53	124	151	169	189	7
124	126	130	132	135	451	473	502	523	11
2,767	2,972	2,761	2,300	2,807	8,383	9,262	10,676	10,840	12
2,048	1,828	1,969	1,866	2,222	6,203	6,579	7,540	7,885	B 1
187	238	137	152	214	605	585	712	741	4
209	204	329	235	236	794	860	978	1,004	5
176	189	183	147	192	595	648	685	711	6
45	53	52	40	45	175	186	190	190	7
16	22	19	23	21	36	65	69	85	9
234	224	233	234	237	849	881	935	928	11
2,915	2,758	2,922	2,697	3,167	9,257	9,804	11,109	11,544	12
+ 150	+ 354	+ 161	- 41	- 32	+ 177	+ 503	+ 700	+ 442	C 1
- 282	- 118	- 303	- 333	- 307	- 1,015	- 980	- 1,064	- 1,061	2
- 16	- 22	- 19	- 23	- 21	- 36	- 65	- 69	- 85	3
- 148	+ 214	- 161	- 397	- 360	- 874	- 542	- 433	- 704	4
+ 44	+ 52	+ 90	+ 65	+ 120	+ 495	+ 280	+ 255	+ 327	D 1
- 68	- 3	- 25	- 35	-	- 109	- 135	- 140	- 63	2
+ 14	+ 37	+ 22	+ 3	+ 16	+ 64	+ 39	+ 77	+ 78	3.1
- 8	- 5	- 40	- 83	- 83	- 116	- 170	- 97	- 211	3.2
+ 318	+ 117	+ 550	+ 285	+ 301	+ 728	+ 984	+ 1,123	+ 1,253	4
- 100	- 57	- 92	- 70	- 178	- 320	- 404	- 358	- 397	5
- 38	- 7	- 11	- 35	- 5	- 65	+ 22	- 63	- 58	6,7,8
-	-	- 8	-	-	- 22	- 18	- 10	- 8	9
+ 2	+ 1	+ 2	+ 5	+ 2	+ 129	+ 25	+ 9	+ 10	10
-	+ 54	-	-	-	-	-	+ 54	+ 54	11
- 12	+ 34	+ 5	+ 20	- 80	- 116	+ 14	+ 3	- 21	13
- 9	- 36	+ 53	+ 38	- 37	- 13	+ 43	+ 28	+ 18	14.1
- 3	-	+ 3	- 1	- 3	- 4	+ 1	-	- 1	14.2
+ 14	- 16	- 18	+ 27	- 10	+ 4	- 27	- 16	- 17	14.3
+ 62	- 229	- 189	+ 106	+ 318	+ 374	+ 34	- 69	+ 6	17
+ 152	+ 223	+ 493	+ 155	+ 93	+ 668	+ 637	+ 853	+ 964	E 1
+ 64	- 281	- 151	+ 170	+ 268	+ 361	+ 51	- 57	+ 6	2
+ 216	- 58	+ 342	+ 325	+ 361	+ 1,029	+ 688	+ 796	+ 970	3
+ 62	+ 97	+ 54	- 118	- 92	+ 537	+ 60	+ 86	- 59	H = C+E 1
+ 6	+ 59	+ 127	+ 46	+ 93	- 378	+ 86	+ 277	+ 325	2
-	-	-	-	-	- 4	-	-	-	3

Notes: D A minus sign indicates an outflow of capital from Canada.

D 1,2 Exclusive of undistributed profits.

D 17 This item includes mainly changes in private and chartered bank holdings of exchange, international money market transactions, loans, and changes in open account commercial indebtedness. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.

H 3 A minus sign indicates a receipt by Canada.



CANADA. BUREAU OF STATISTICS

QUARTERLY ESTIMATES OF THE CANADIAN
BALANCE OF INTERNATIONAL PAYMENTS
(THIRD QUARTER 1965)

Contains annual bilateral estimates and
quarterly estimates with the United States
for 1962 through 1964.

Published by Authority of
The Minister of Trade and Commerce

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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

THIRD QUARTER 1965

Larger increases in Canadian imports of merchandise than in exports have been the leading factor influencing the enlargement in Canada's current international deficit in goods and services during 1965, which in 9 months amounted to \$754 million compared with \$272 million in the same period of 1964. Allowing for the seasonal factors, this is the equivalent of an annual rate in the neighbourhood of \$1 billion. This annual rate persisted even in the third quarter when international current receipts and payments were largely in balance on account of the usual concentration of receipts from the summer's tourist trade.

Increases in imports are a reflection of strong Canadian demands associated with record levels of incomes and expenditures, including the large investments in machinery and equipment and some accumulation of inventories. Exports to the United States and some overseas destinations have continued to rise over last year, and in the third quarter a new factor in exports overseas for this year was the first delivery in the sales of wheat to the U.S.S.R. announced during the quarter. On the basis of clearances during the period, exports of wheat and flour on the account of the U.S.S.R. amounted to an estimated \$78 million in this quarter this year, which compares with some \$63 million in the third quarter of 1964 when the deliveries under the earlier special sale were completed.

Summary Statement

	1963	1964	1964		1965		
			III Q	IV Q	I Q	II Q	III Q
	millions of dollars						
Merchandise trade balance	+ 503	+ 700	+ 354	+ 161	- 42	- 28	+ 148
Deficit on non-merchandise transactions	- 1,045	- 1,133	- 140	- 322	- 355	- 335	- 142
Current account balance	- 542	- 433	+ 214	- 161	- 397	- 363	+ 6
Capital movements(1)	+ 688	+ 796	- 58	+ 342	+ 325	+ 364	+ 220
Long-term forms	+ 637	+ 853(2)	+ 223	+ 493	+ 133	+ 96	+ 219
Short-term forms	+ 51	- 57	- 281	- 151	+ 192	+ 268	+ 1
Change in official holdings of gold, foreign exchange, and net balance with International Monetary Fund	+ 146	+ 363	+ 156	+ 181	- 72	+ 1	+ 226

(1) Excluding change in official exchange holdings.

(2) Including net receipts of \$54 million under the Columbia River Treaty arrangements.

Current Account Transactions in the Third Quarter

Canada's transactions with the rest of the world in current goods and services in the third quarter yielded a surplus of \$6 million. As compared with a year-before surplus of \$214 million, which was the most favourable balance for the quarter in recent years, there was a decline of \$208 million. Net payments for services scarcely changed from \$140 million to \$142 million, the diminution in the current account surplus originated in merchandise trade. Merchandise imports rose more rapidly than exports, and an export balance of \$354 million in the third quarter of 1964 was reduced \$206 million, or nearly 60 per cent, to a surplus of \$148 million in the third quarter of 1965. Geographically current transactions with the United States accounted for about one-third of the shrinkage, transactions with the United Kingdom for about one-sixth and transactions with other countries for the remaining one-half. Within this third area, the bulk of the decline occurred in transactions with countries outside the sterling area and the other OECD Europe group.

The unadjusted trade balance between recorded exports and imports represented a surplus of \$87 million in the third quarter. But with adjustments primarily for the timing of wheat shipments, as shown in the "clearances", this balance was raised to \$148 million. The lag in entry into the export total of shipments of grain under the new Russian contract represented an important part of the timing adjustment. There were also smaller and offsetting adjustments for progress payments and deliveries of defence goods and civil aircraft. As mentioned in preceding issues of this report, similar adjustments converted a crude surplus of \$10 million in the first quarter to a balance of payments deficit on merchandise trade of \$42 million, and reduced a recorded ~~surplus~~ ^{deficit} of \$63 million in the second quarter to a ~~positive~~ ^{negative} balance of \$28 million.

Cumulatively for the first 9 months of 1965, Trade of Canada surplus stood at \$34 million and the adjusted export balance for balance of payments use at \$78 million.

Adjusted merchandise exports rose \$80 million, or more than 3 1/2 per cent, from \$2,182 million to \$2,262 million in the third quarter of 1965. Merchandise imports increased much more - \$286 million or about 15 1/2 per cent from \$1,828 million to \$2,114 million between the two periods.

The small rise of \$2 million to \$142 million in net payments on non-merchandise transactions included larger but offsetting changes in the balances of some component items. As increase of \$20 million in the surplus on travel account with the United States together with a decline of \$1 million in net travel expenditures overseas contributed \$21 million towards reducing Canada's recurring deficit on all non-merchandise transactions. Higher immigration, with the largest number of third-quarter arrivals in recent years, caused a deficit of \$3 million in the July - September quarter of 1964 to change to a surplus of \$7 million in the third quarter of 1965. A similar turn-around of about the same magnitude took place in each of the first two quarters of the year. Net payments of interest, dividends and other items widened moderately, and the value of gold production available for export decreased \$2 million to \$34 million. Official contributions, at \$30 million, were at their highest level for the third quarter in recent years. This total included about \$10 million worth of wheat shipped to India and Pakistan, together with contributions to Canada's other bilateral and multilateral economic aid programs.

Current Transactions in the Nine Months

Canada's current account deficit with foreign countries was estimated at \$754 million for the first 9 months of 1965. This total was up \$482 million over the deficit of \$272 million for the same period of 1964, and was more than 2 1/2 times larger. The enlargement of the current account deficit was distributed \$59 million, \$215 million and \$208 million over the first 3 quarters of 1965, and roughly paralleled the over-the-year narrowing in the trade surplus - \$77 million, \$178 million and \$206 million, totalling \$461 million in the 3 quarters. The deficit on non-merchandise transactions widened \$21 million, or about 2 1/2 per cent, from \$811 million to \$832 million.

More than 65 per cent of the growth in the current account deficit in the 9 months occurred in Canada's transactions with overseas countries, other than the United Kingdom. Transactions with the United States accounted for over 28 per cent and those with the United Kingdom 6 per cent of the deterioration in the deficit.

The substantial decline in the merchandise surplus from \$539 million in the first 3 quarters of 1964 to \$78 million in the same period of 1965 resulted from a much sharper rise in imports. Merchandise exports gained \$166 million or over 2 1/2 per cent from \$6,110 million to \$6,276 million. Merchandise imports for the 9 months of 1965 were estimated at \$6,198 million, up \$627 million or about 11 per cent over \$5,571 million for the first 3 quarters of 1964.

The expansion of \$166 million in merchandise exports to \$6,276 million in the first 3 quarters of 1965 was the result of large increases and decreases involving a number of commodities and commodity groups. Exports of motor vehicles and parts advanced nearly \$100 million between the 9 months of 1964 and 1965, as did also shipments of non-ferrous metallic ores and alloys. Shipments of wood pulp and newsprint were together some \$50 million higher, and those of machinery and of the group covering oil seeds and meal were each more than \$25 million larger. Exports of each of the following 3 groups of commodities increased approximately \$20 million: meat and fish; crude petroleum, natural gas and sulphur; and chemicals. Clearances of wheat declined over \$220 million between the first 3 quarters of 1964 and 1965, of which the reduction in shipments on Russian account (including Cuba) amounted to nearly \$160 million. Exports of wheat flour were down more than \$35 million (mainly on Russian account) and those of uranium, aircraft and engines, and railway rolling stock were each lower by between \$15 million and \$20 million.

Summary of Current Transactions with the United States, United Kingdom and Other Countries
1964 and 1965, and Changes Between the Periods

	1964	1965	Change	1964	1965	Change
	millions of dollars					
<u>Third quarter</u>	<u>All Countries</u>			<u>United States</u>		
Merchandise exports (adjusted)	2,182	2,262	+ 80	1,148	1,268	+ 120
Merchandise imports (adjusted)	1,828	2,114	+ 286	1,230	1,428	+ 198
Balance on merchandise trade	+ 354	+ 148	- 206	- 82	- 160	- 78
Other current receipts	790	885	+ 95	586	654	+ 68
Other current payments	930	1,027	+ 97	619	680	+ 61
Balance on non-merchandise transactions ...	- 140	- 142	- 2	- 33	- 26	+ 7
Total receipts	2,972	3,147	+ 175	1,734	1,922	+ 188
Total payments	2,758	3,141	+ 383	1,849	2,108	+ 259
Current account balance	+ 214	+ 6	- 208	- 115	- 186	- 71
<u>January to September</u>						
Merchandise exports (adjusted)	6,110	6,276	+ 166	3,228	3,607	+ 379
Merchandise imports (adjusted)	5,571	6,198	+ 627	3,872	4,350	+ 478
Balance on merchandise trade	+ 539	+ 78	- 461	- 644	- 743	- 99
Other current receipts	1,805	1,989	+ 184	1,253	1,354	+ 101
Other current payments	2,616	2,821	+ 205	1,785	1,924	+ 139
Balance on non-merchandise transactions ...	- 811	- 832	- 21	- 532	- 570	- 38
Total receipts	7,915	8,265	+ 350	4,481	4,961	+ 480
Total payments	8,187	9,019	+ 832	5,657	6,274	+ 617
Current account balance	- 272	- 754	- 482	- 1,176	- 1,313	- 137
<u>Third quarter</u>	<u>United Kingdom</u>			<u>Other Countries</u>		
Merchandise exports (adjusted)	324	309	- 15	710	685	- 25
Merchandise imports (adjusted)	134	156	+ 22	464	530	+ 66
Balance on merchandise trade	+ 190	+ 153	- 37	+ 246	+ 155	- 91
Other current receipts	88	96	+ 8	116	135	+ 19
Other current payments	118	123	+ 5	193	224	+ 31
Balance on non-merchandise transactions ...	- 30	- 27	+ 3	- 77	- 89	- 12
Total receipts	412	405	- 7	826	820	- 6
Total payments	252	279	+ 27	657	754	+ 97
Current account balance	+ 160	+ 126	- 34	+ 169	+ 66	- 103
<u>January to September</u>						
Merchandise exports (adjusted)	913	872	- 41	1,969	1,797	- 172
Merchandise imports (adjusted)	440	454	+ 14	1,259	1,394	+ 135
Balance on merchandise trade	+ 473	+ 418	- 55	+ 710	+ 403	- 307
Other current receipts	243	268	+ 25	309	367	+ 58
Other current payments	314	313	- 1	517	584	+ 67
Balance on non-merchandise transactions ...	- 71	- 45	+ 26	- 208	- 217	- 9
Total receipts	1,156	1,140	- 16	2,278	2,164	- 114
Total payments	754	767	+ 13	1,776	1,978	+ 202
Current account balance	+ 402	+ 373	- 29	+ 502	+ 186	- 316

Commodity details on imports are incomplete for the first 9 months of 1965. Larger imports of motor vehicles and parts, machinery and industrial materials, including fabricated steel, fuel oil and chemicals, were featured in the rise of about 10 per cent in imports between the first half of 1964 and 1965. It is to be expected that increases in imports of these commodities together with consumer goods would contribute to the 11 per cent rise in imports for the 9 months of the year.

Major Items in the Balance on Non-Merchandise Transactions

	First nine months					Change in 1965
	1961	1962	1963	1964	1965	
millions of dollars						
Gold production available for export	+ 124	+ 119	+ 115	+ 110	+ 103	- 7
Travel expenditures	- 120	- 35	+ 29	- 25	- 15	+ 10
Interest and dividends	- 413	- 442	- 431	- 477	- 502	- 25
Freight and shipping	- 52	- 67	- 64	- 26	- 58	- 32
Inheritances and migrants' funds	- 49	- 30	- 20	- 13	+ 19	+ 32
Official contributions	- 36	- 27	- 49	- 50	- 74	- 24
All other current transactions	- 277	- 300	- 302	- 330	- 305	+ 25
Balance on non-merchandise transactions ...	- 823	- 782	- 722	- 811	- 832	- 21

Deficit on Services and Other Non-Merchandise Items

Canada's deficit on non-merchandise transactions widened about 2 1/2 per cent from \$811 million in the first 9 months of 1964 to \$832 million in the corresponding period of 1965. The latter total was a shade higher than the 9-month "invisible" deficit in 1961 of \$823 million. Among changes in the balances of individual non-merchandise transactions, there were some which were larger than the magnitude of the over-all change of \$21 million. Between the 9 months of 1964 and 1965, an improvement of \$32 million in the balance on inheritances and migrants' funds was counterbalanced by a widening by the same amount in the deficit on freight and shipping services. Other changes contributing to enlarging the deficit on non-merchandise transactions included an increase of \$25 million in net payments of interest and dividends, a rise of \$24 million in official contributions and a decline of \$7 million in the value of gold production available for export. There were moderate reductions in net payments of travel expenditures of \$10 million and of other current transactions, including government expenditures, miscellaneous income and business services, amounting to \$25 million altogether.

Travel Expenditures

	First nine months				Change in 1965
	1962	1963	1964	1965	
millions of dollars					
United States:					
Receipts	429	457	494	550	+ 56
Payments	352	319	389	438	+ 49
Balance	+ 77	+ 138	+ 105	+ 112	+ 7
Overseas:					
Receipts	41	48	56	74	+ 18
Payments	153	157	186	201	+ 15
Balance	- 112	- 109	- 130	- 127	+ 3
All countries:					
Receipts	470	505	550	624	+ 74
Payments	505	476	575	639	+ 64
Balance	- 35	+ 29	- 25	- 15	+ 10

The 9-month travel deficit which had exceeded \$100 million in the second half of the Fifties' decade reached a high level of \$152 million in 1960. The deficit for the first 3 quarters thereafter contracted until 1963 when a surplus of \$29 million occurred. A year later a deficit of \$25 million reappeared as a result of a cut in the surplus on travel account with the United States combined with a rise in Canada's net travel payments overseas. Between the 9 months of 1964 and 1965, the travel deficit was reduced by \$10 million to \$15 million, as the surplus with the United States rose \$7 million to \$112 million, while the deficit with other countries declined \$3 million to \$127 million. Both the receipts from foreign visitors of \$624 million (including \$550 million spent by travellers from the United States) and the Canadian expenditures abroad of \$639 million (of which \$438 million were spent in the United States) stood at record levels. In a comparison of net travel transactions for the first 9 months in recent years, it is seen that Canada's deficit with overseas countries has increased, but moderately from \$112 million in 1962 to \$127 million in 1965. Net travel receipts from the United States on the other hand have fluctuated markedly - from \$77 million in 1962 to \$112 million in 1965, with a peak level of \$138 million in the first 3 quarters of 1963.

Net payments of interest and dividends rose \$25 million or about 5 per cent to \$502 million in the first 9 months of 1965. This total represented 60 per cent of the deficit of \$832 million on all service transactions, similar to the proportion in the same period of the two preceding years. The growth in the deficit on account of interest and dividends resulted from a larger increase in payments than in receipts of both interest and dividends, particularly in the former. Interest payments rose \$23 million to \$262 million in the first 9 months of 1965 following large sales of new provincial, municipal and corporate bonds to foreign investors during 1964 and in the early months of 1965. A large portion of the increase of \$36 million in dividend payments to \$446 million and also of a slightly smaller gain in dividend receipts originated in direct investment, as dividends on portfolio holdings rose moderately between the first 3 quarters of the two years.

Interest and Dividends: Payments

Period	Total	Interest	Dividends
millions of dollars			
1962	794	284	510
1963	860	314	546
1964	978	336	642
1963 III Q	181	67	114
IV Q	285	92	193
1964 I Q	236	73	163
II Q	209	94	115
III Q	204	72	132
IV Q	329	97	232
1965 I Q	235	77	158
II Q	248	107	141
III Q	225	78	147

The costs of international transportation of growing volumes of exports and imports were reflected in receipts of \$482 million and payments of \$540 million for freight and shipping services, both standing at peak levels for the first 9 months of the year. Net payments for these services more than doubled from \$26 million to \$58 million, but the 9-month deficits were higher at \$64 million and \$67 million in 1963 and 1962. The situation in 1964 was unusually favourable due to receipts of inland freight and port expenditures from foreign-operated ships engaged in delivering grain and flour under the first large-scale contract with the U.S.S.R.

In continuation of a tendency towards improvement since 1960, net payments of \$13 million on migrants' funds and inheritances in the first 3 quarters of 1964 changed to a surplus of \$19 million in 1965. This favourable development was largely due to the rising number of immigrants, who numbered more than

84,600 persons in the first 3 quarters of 1964 and over 108,400 persons in the same period of 1965.

Official contributions, or Canada's economic aid to developing countries in the form of grants, were higher in each quarter of 1965 as compared with the corresponding period one year before. Over the 3 quarters, official contributions totalled \$74 million, as compared with \$50 million and \$49 million in the 9 months of 1964 and 1963, respectively. Payments were higher under the bilateral plans as well as under the international food aid program, and contributions to multilateral aid schemes were also larger in the first 9 months of 1965. Official contributions included wheat shipments to India and Pakistan amounting to more than \$18 million.

The \$25 million decline in the deficit on all other current transactions from \$330 million to \$305 million was attributable to a fairly substantial payment in the first quarter of 1964 of Canada's share of the common defence costs in Korea, together with other factors including larger receipts in 1965 of interest on export credits supplied and of fees for some types of business services.

Transactions by Areas

In an over-the-year comparison of quarterly estimates, Canada's current account deficit with the United States has widened over the previous year each quarter since the fourth quarter of 1963. The deficit for the first 3 quarters of 1965 of \$1,313 million was \$137 million, or 11 1/2 per cent, above \$1,176 million for the same period in 1964. More than 70 per cent of the rise in the deficit originated in merchandise trade. Both merchandise exports and imports gained about 12 per cent but the magnitude of change in imports was larger, increasing from \$3,872 million to \$4,350 million, or by \$478 million, between the 9 months of 1964 and 1965. Over the same period, merchandise exports to the United States rose \$379 million from \$3,228 million to \$3,607 million. This gain in exports was spread over a whole range of commodities but was more pronounced in automobiles and parts and other manufactured goods. Lower value of gold production available for export, larger net payments on freight and shipping services and, in particular, a much higher deficit on interest and dividends brought about a widening of \$38 million from \$532 million to \$570 million in the deficit on "invisibles" with the United States. There were smaller ameliorating changes in the balances on travel, migrants' funds and some miscellaneous transactions.

Quarterly Current Account Balances

	I Q	II Q	III Q	IV Q	Year
	millions of dollars				
United States:					
1962	- 342	- 426	- 75	- 279	- 1,122
1963	- 348	- 345	- 60	- 409	- 1,162
1964	- 549	- 512	- 115	- 479	- 1,655
1965	- 589	- 538	- 186		
United Kingdom:					
1962	+ 9	+ 50	+ 53	+ 106	+ 218
1963	+ 81	+ 116	+ 97	+ 120	+ 414
1964	+ 90	+ 152	+ 160	+ 205	+ 607
1965	+ 99	+ 148	+ 126		
Other countries:					
1962	-	+ 6	- 22	+ 46	+ 30
1963	+ 29	+ 20	- 13	+ 170	+ 206
1964	+ 121	+ 212	+ 169	+ 113	+ 615
1965	+ 93	+ 27	+ 66		

Canada's current account surplus with the United Kingdom was \$4 million smaller in the second quarter of 1965 and \$34 million lower in the third quarter as compared with the quarterly surpluses in 1964. The 9-month surplus of \$373 million was \$29 million or 7 per cent, below that of \$402 million in 1964. This reduction in the surplus arose entirely from merchandise trade. While imports increased 3 per cent from \$440 million to \$454 million, merchandise exports declined \$41 million, or 4 1/2 per cent, to \$872 million. The reduction, concentrated mainly newsprint and in other manufactures, was probably the result largely of the imposition of surcharges on imports by the United Kingdom. A combination of somewhat special factors narrowed the non-merchandise deficit from \$71 million to \$45 million in the first 9 months of 1965. Some of these were the Korean defence cost settlement and payment of non-recurring dividends in the first quarter of 1964, and receipts of more fees for business services in 1965 and larger dividends on direct investment in the third quarter of the year.

In the reduced current account surplus with other countries all but \$9 million of the \$316 million contraction from \$502 million to \$186 million was attributable to merchandise trade. Commodity exports declined \$172 million, or over 8 1/2 per cent, from \$1,969 million to \$1,797 million, while merchandise imports rose \$135 million, or more than 10 1/2 per cent, from \$1,259 million to \$1,394 million. More than the entire \$316 million shrinkage in the current account surplus with other countries originated from transactions with countries not members of the sterling or OECD groups. Canada's current account surplus with the Rest of the Sterling Area more than doubled but most of this favourable contribution was neutralized by a fairly sizable addition to the deficit with other OECD countries in Europe. The reduction of some \$194 million in shipments of wheat and flour on Russian account, as mentioned before, exceeded the \$172 million decline in Canada's exports to overseas countries, excluding the United Kingdom.

Canada's current account deficit with the United States in the third quarter of 1965, (excluding gold production available for export, which is conventionally attributed to the United States account) amounted to \$220 million. In the first nine months of 1965 it totalled \$1,416 million. Capital movements between Canada and the United States in long and in short-term forms, shown separately in the statement, involved an outflow of \$9 million in the third quarter and of \$40 million in the nine months. Transactions with the United States (apart from changes in Canada's official holdings of United States dollars which rose in the third quarter but were below the figure at the beginning of the year) accordingly gave rise to net payments to that country of \$229 million in the third quarter and of \$1,456 million in the nine months of 1965. This massive bilateral imbalance was some \$1,200 million larger than in the corresponding period of 1964. Flows of banking funds were of special importance in this change and are discussed below.

Financing of Canada's Bilateral Account with the United States

	1962	1963	1964	First 3 quarters		1964	1965			
				1964	1965	IV Q	I Q	II Q	III Q	
millions of dollars										
<u>Transactions with the United States(1)</u>										
Current account balance	- 1,277	- 1,316	- 1,800	- 1,286	- 1,416	- 514	- 624	- 572	- 220	
Capital movements in long-term forms	+ 668	+ 843	+ 1,087	+ 573	+ 609	+ 514	+ 180	+ 157	+ 272	
Capital movements in short-term forms	+ 423	+ 7	+ 668	+ 462	- 649	+ 206	- 206	- 162	- 281	
Total	- 186	- 466	- 45	- 251	- 1,456	+ 206	- 650	- 577	- 229	
<u>Financing</u>										
Transactions with rest of world:										
Current account balance	+ 248	+ 620	+ 1,222	+ 904	+ 559	+ 318	+ 192	+ 175	+ 192	
Capital movements in long-term forms	- -	206	234	213	161	21	47	61	53	
Capital movements in short-term forms	- 62	+ 44	- 725	- 368	+ 1,110	- 357	+ 398	+ 430	+ 282	
Sub-total	+ 186	+ 458	+ 263	+ 323	+ 1,508	- 60	+ 543	+ 544	+ 421	
Gold production available for export	+ 155	+ 154	+ 145	+ 110	+ 103	+ 35	+ 35	+ 34	+ 34	
Increase (-) in official Canadian holdings of gold, foreign exchange, net asset with the IMF, etc.										
Total	+ 186	+ 466	+ 45	+ 251	+ 1,456	- 206	+ 650	+ 577	+ 229	

(1) Excluding gold production available for export and changes in official monetary assets, shown with financing.

Note: There is a discontinuity at the end of 1963 in the allocation bilaterally of capital movements in short-term forms. See text.

With the United Kingdom and other overseas countries the pattern of balance was in reverse - Canada experienced current account surpluses of \$192 million in the third quarter and of \$559 million in the nine month period and received capital of \$229 million in the quarter and \$949 million in the nine months, bringing net receipts to \$421 million and \$1,508 million respectively.

The other items in Canada's balance of payments were the current gold production available for export amounting to \$34 million in the third quarter and \$103 million in the nine months, and the increases in Canada's official holdings of gold, foreign exchange, and International Monetary Fund assets amounting to \$226 million in the quarter and \$155 million on balance in the nine month period.

Contributing to the bilateral imbalances already cited were very major shifts arising from the foreign currency operations through the Canadian banking system. The following statement shows that \$864 million of the 1964-1965 change of \$1,205 million in the nine months bilateral balance with the United States reflected these rather special transactions, while in the case of other countries at \$1,357 million they more than accounted for the swing of \$1,185 million. Apart from these bilateral shifts significant external financing has been provided by reductions in Canadian-owned banking claims abroad.

Net capital movement arising from the foreign currency operations of the Canadian banking system	First three quarters		Change
	1964	1965	
	millions of dollars		
United States	+ 268	- 596	- 864
Other countries	- 317	+ 1,040	+ 1,357
Total	- 49	+ 444	+ 493

The data represent transactions in net foreign banking assets of resident customers of Canadian banks in Canada together with small variations in the net foreign currency assets of the banks themselves.

Because of the special character and great complexity of the international banking operations, which were described in a technical note in the last report, readers may wish to have some further description of recent developments. The net outflows to the United States arising from these operations aggregated \$296 million in the third quarter, bringing the net outward movement for the nine months to nearly \$600 million. This was twice the inflow which had occurred from the United States through this channel in the whole of 1964. From other countries, on the other hand, there were inflows of \$273 million in the third quarter and of well over \$1,000 million in the nine months. This was more than \$400 million larger than the outflow to these countries in 1964.

Canadian Chartered Banks

Net Transactions in Foreign Currency Assets and Liabilities of Head Offices and Branches in Canada

	Year	I Q	II Q	III Q
	1964	1965	1965	1965
millions of dollars				
<u>Assets with residents of:</u>				
United States	40	- 215	- 83	271
Other Countries	69	- 231	- 324	16
Total non-resident	731	- 446	- 407	287
Canada	(b) 198	100	71	60
Totals	929	- 346	- 336	347
<u>Liabilities with residents of:</u>				
United States	337	- 337	- 261	- 25
Other Countries	91	110	102	289
Total non-resident	428	- 227	- 159	264
Canada	(a) 532	- 167	- 136	143
Totals	960	- 394	- 295	407
<u>Net Assets with residents of:</u>				
United States	- 297	122	178	296
Other Countries	600	- 341	- 426	- 273
Total non-resident	303	- 219	- 248	23
Canada	- 334	267	207	- 83
Totals	(a) - 31	48	- 41	- 60

The above statement is designed to show the effect on Canada's balance of payments of foreign currency banking operations of the Canadian Chartered Banks. As described in the extended note in the report for the second quarter of 1965, the amounts identified as (a) are embodied within item D 17.1 (e.g. this item in 1964 includes-\$501 million, reflecting an increase of \$532 million in residents' holdings of foreign currency deposits with Canadian Chartered Banks in Canada less a decrease of \$31 million in the net foreign currency holdings of these institutions); while the amount identified as (b) is embodied within items D 13 and D 17.5 (e.g. in 1964 as an aggregate inflow of \$198 million).

The figures are based on data published monthly in the Statistical Summary of the Bank of Canada, but have been adjusted so as to eliminate changes in value resulting from variation in exchange rates.

While the pattern of outflows to the United States and inflows from other countries was characteristic of each quarter of 1965, more than reversing opposite flows in 1964, the underlying elements in the third quarter were quite different from those in the earlier part of 1965. During the first and second quarters of 1965 there had been very sharp declines - aggregating nearly \$600 million - in deposit liabilities in foreign currencies to residents of the United States, declines which must be related in part at least to the application of the balance of payments guide-lines introduced by the United States authorities. The Canadian banks reduced their assets in the United States, but by only half this amount, leaving a net outflow to the United States of \$300 million. In the same period the Canadian banks attracted more than \$200 million of deposits from overseas, but concurrently they reduced the funds employed there by more than \$550 million, a massive shift of more than \$750 million in all.

In the third quarter there was a further large increase in foreign currency deposits attracted from overseas, approaching \$300 million, probably reflecting in some measure the improved balance of payments position in some parts of Europe. At the same time repatriation of United States owned deposits fell to only \$25 million from the very large flows earlier. The moderation of United States withdrawals, and the large receipts from overseas contributed to a growth of foreign currency assets which were largely employed in the United States. Accordingly, the reduction of assets there which occurred in the first half of the year coincidentally with the reduction of deposit liabilities, was substantially reversed in the third quarter.

Capital Account Transactions in the Third Quarter

The major capital movements in both long and short-term forms in the third quarter were mainly concentrated in the same categories of transactions as in the previous period. Due to changes in the mix, however, there were quite sharp swings from the second quarter position in the aggregate movements with total long-term inflows more than doubling to \$219 million while short-term inflows dropped by \$267 million to \$1 million. The balance on current account, reflecting largely normal seasonal factors, improved in the third quarter to a surplus of \$6 million. The resultant increase in reserve assets amounted to \$226 million, of which over one third took the form of net drawings in Canadian currency by member countries of the International Monetary Fund.

Summary	1963	1964	1964			1965		
			II Q	III Q	IV Q	I Q	II Q	III Q
			millions of dollars					
Capital movements in long-term forms	+ 637	+ 853	+ 152	+ 223	+ 493	+ 133	+ 96	+ 219
Capital movements in short-term forms(1)	+ 51	- 57	+ 64	- 281	- 151	+ 192	+ 268	+ 1
Balance on goods and services	- 542	- 433	- 148	+ 214	- 161	- 397	- 363	+ 6
Change in official holdings of gold, foreign exchange, and net balance with the International Monetary Fund	+ 146	+ 363	+ 68	+ 156	+ 181	- 72	+ 1	+ 226

(1) Excluding items in final line.

The main capital inflow in long-term forms continued to arise from the sale to non-residents of Canadian new issues, buttressed by another substantial inflow for direct investment in Canada. The main outflows were for the retirement of outstanding Canadian securities, export financing and Canadian direct investment abroad with significant amounts also flowing out for the repatriation of Canadian equities and the purchase of foreign securities. A sharp contraction in retirements of securities from the exceptionally high total in the second quarter was a leading factor contributing to the increased net inflow in long-terms forms.

The significant factor reducing the overall inflow for capital movements in short-term forms between the second and third quarters was the swing from a decrease to an increase in Canadian holdings of bank balances and other short-term funds abroad. All other short-term movements were in the same direction as in the previous quarter with the only significant change being an increased outflow as non-residents reduced their holdings of Canadian finance paper.

The balance of transactions in goods and services together with capital movements in long-term forms was relatively large and inward in the third quarter, which is seasonally characteristic, but only slightly more than half the balance a year earlier. Over the nine months of 1965 the current account deficit exceeded capital inflows in long-term forms by more than \$300 million.

DIRECT INVESTMENT Net inflows of foreign capital for long-term direct investment in non-resident controlled enterprises at \$100 million in the third quarter were four-fifths of the unusually high level of the previous period. Manufacturing continued to receive the largest share of the inflow, with substantial amounts also going to the mining and petroleum and natural gas industries. The net inflow in the first nine months of 1965 amounted to \$290 million which was some \$125 million higher than for the corresponding period of 1964.

Prominent among the transactions in the third quarter was the takeover by United States interests of a Canadian pharmaceutical company, while a reverse flow was occasioned by the disposal by United States interests of the assets of its Canadian subsidiary. Geographically about four-fifths of the inflow came from the United States and the bulk of the remainder from overseas countries other than the United Kingdom.

Canadian direct investment abroad involved an outflow of \$40 million during the quarter under review. Included in this total were significant amounts channelled into beverage, metal fabricating and petroleum transportation subsidiaries and into hotel and motel developments. About two-fifths of the total outflow was to the United States, one-tenth to the United Kingdom and a half to other countries.

SECURITY TRANSACTIONS Transactions in portfolio securities between Canada and other countries during the third quarter of 1965 resulted in a net capital inflow of \$225 million. This was nearly 60 per cent more than the total inflow of \$141 million for the first two quarters of the year and is explained by a substantially higher sales balance of \$247 million from transactions in Canadian securities.

The sale of Canadian new issues, again the dominant feature of security movements, accounted for an inflow of \$293 million, virtually unchanged from the preceding quarter's figure. The bulk of this inflow came from the sale of \$169 million of new corporation bonds and \$101 million of new provincial government direct and guaranteed issues. Retirements of Canadian securities at \$56 million returned to the normal third quarter level from the unusually high \$176 million of the previous quarter, while trade in outstanding Canadian securities showed a sales balance of \$10 million compared with last quarter's purchase balance of \$67 million. Net sales of outstanding bonds reached \$38 million, while the net outflow for the repatriation of Canadian equities, at \$28 million, was two-thirds down from the \$83 million outflows of the March and June quarters.

New Issues of Canadian Bonds Sold to
United States Residents

Detail of Transactions in Foreign Securities
Items D 6, 7, 8

Period	Offerings	Deliveries	Un- delivered(1)
	millions of dollars		
1963	Year	711	922
1964	"	989	1,054
1964	III Q	309	103
	IV Q	351	532
1965	I Q	334	257
	II Q	261	287
	III Q	373	285

Item	1964			1965		
	II Q	III Q	IV Q	I Q	II Q	III Q
	millions of dollars					
Outstanding						
issues	- 31	- 4	- 6	- 11	- 13	- 16
New issues ...	- 10	- 5	- 8	- 27	- 6	- 8
Retirements ..	+ 3	+ 2	+ 3	+ 3	+ 14	+ 2
Total	- 38	- 7	- 11	- 35	- 5	- 22

(1) At end of period.

(A minus sign indicates an outflow of capital from Canada).

Dealings in foreign securities led to a net outflow of \$22 million, of which \$16 million consisted of net purchases of outstanding securities.

During the first nine months of 1965, a net capital inflow of \$366 million accrued to Canada from transactions in portfolio securities with other countries. This may be compared with inflows of \$253 million and \$529 million for the corresponding periods of 1964 and 1963, respectively.

OTHER CAPITAL FLOWS IN LONG-TERM FORMS There were no subscriptions to international investment agencies in the third quarter and only insignificant amounts were advanced on inter-governmental loans. One regular principal repayment was received - an amount of \$1 million from India.

Outflows during the quarter representing the financing of exports directly or indirectly at the risk of the Government of Canada amounted to \$52 million. Programmes cover agricultural products mainly to the Sino-Soviet bloc, aircraft to developed countries and a wide range of other capital equipment supplied to developing countries largely in Latin America and the Commonwealth. This brings the total outflow for this purpose in the first nine months of 1965 to \$153 million and increases the amount outstanding financed from Canadian sources (after taking into account repayments and claims rediscounted outside Canada) to about \$575 million.

All other transactions in long-term forms in the third quarter led to a net outflow of \$15 million, repeating the movement in the second quarter. For the most part these flows represented bank loans and repayments, although capital movements in connection with insurance operations and private long-term trade credits and other loans also contributed.

CAPITAL MOVEMENTS IN SHORT-TERM FORMS Capital movements in short-term forms in the third quarter were almost offsetting and led to an inflow of \$1 million. Inflows in the first two quarters of 1965 were \$192 million and \$268 million, successively.

Non-resident holdings of Canadian dollars fell in aggregate by \$27 million in the third quarter of 1965, about half the decline recorded in the previous quarter. A decrease in Canadian dollar deposits was again the predominant factor, this time accounting for a net outflow of \$19 million. Declines of \$5 million and \$3 million were recorded for demand liabilities of the Government of Canada to non-residents and for foreign-owned holdings of treasury bills, respectively. On balance about three-quarters of the total outflow of \$27 million in the third quarter reduced Canadian dollar liabilities to the United States with the remainder split relatively evenly between the United Kingdom and other countries.

Composition of "Other Capital Movements"
(A minus sign indicates an outflow of capital from Canada)

		1964			1965		
	1964	II Q	III Q	IV Q	I Q	II Q	III Q
		millions of dollars					
17.1 Bank balances and other short-term funds abroad (excluding official reserves)	- 524	- 127	- 164	- 384	+ 170	+ 140	- 81
17.2 Canadian commercial paper	- 11	- 19	- 18	- 1	-	+ 7	+ 4
17.3 Canadian finance paper	+ 176	+ 104	+ 3	- 24	- 36	- 13	- 65
17.4 Canadian finance company obligations, n.i.e.	+ 49	+ 1	+ 16	+ 33	+ 25	+ 99	+ 89
17.5 All other transactions(1)	+ 241	+ 103	- 66	+ 187	- 31	+ 85	+ 81
Total (Item D 17)	- 69	+ 62	- 229	- 189	+ 128	+ 318	+ 28

(1) Includes changes in loans and accounts receivable and payable, and also balancing item representing difference between direct measurements of current and capital accounts.

There were a number of large offsetting movements in the groups specified separately in the supplementary statement covering "Other Capital Movements" which in total resulted in a capital inflow of \$28 million. Canadian holdings of bank balances and other short-term funds abroad (excluding official reserves) increased. This change represented a net outflow of \$81 million, a sharp reversal of the inflows from the diminution of these balances by \$170 million and \$140 million, successively, in the first and second quarters of 1965. The bilateral distribution continued as in the first half of the year with large outflows to the United States and large inflows from abroad. In contrast to the previous periods of the year, however, the inflows from abroad were smaller than the outflows to the United States.

A domestic development of interest in the Canadian money market in the third quarter was the reduction by the Chartered Banks on charges for bankers' acceptances and the subsequent increased volume of these instruments. In the two years prior to June 1965 the average monthly amount outstanding ranged between \$8 million and \$13 million and was \$15 million at the end of June. There were substantial additional sums raised through this medium in each month of the third quarter so that by the end of September the amount outstanding had risen seven times above the figure at the end of June to about \$105 million. Non-residents provided a small but significant share of this amount. Data on these holdings together with transactions in provincial guaranteed paper and negotiable term notes of the Canadian Chartered Banks form part of the category broadly described as Canadian commercial paper. On balance about \$4 million of these instruments were acquired by non-residents in the third quarter. At the end of September non-resident holdings of all these instruments at nearly \$30 million were about 8 per cent of the total outstanding.

Short-term Canadian finance company paper in the hands of non-residents fell by \$65 million in the third quarter bringing the outflow for the first three quarters of 1965 to \$114 million and reducing holdings to about \$350 million at the end of the period. The total amount of this paper outstanding was little changed at December 1964 and September 1965. The decline in non-resident holdings, therefore, reflected a substantial drop in their share of the total outstanding from just over two-fifths at the beginning of the year to one-third at the end of September. Transactions in other finance company obligations (which include borrowings from foreign banks and advances from parent companies) resulted in a net inflow of \$89 million, \$10 million below the second quarter figure. Other finance company transactions which are not identified as a group are included with capital movements in long-term forms, notably in new issues and retirements of Canadian securities. All in all, the international borrowing of these companies led to net inflows of about \$20 million, \$40 million and \$40 million successively in the first three quarters of 1965. Data for the third quarter are not yet available but it may be noted that the gross assets of Canadian sales finance and consumer loan companies rose by about \$200 million in each of the first two quarters of 1965.

All other transactions led to a net capital inflow of \$81 million. Increases in short-term foreign currency banking loans to Canadians were again an important element in this inflow.

Official Holdings of Gold and Foreign Exchange and Canada's Balance with the IMF

Canada's official holdings of gold and foreign exchange increased by \$144 million in Canadian funds in the third quarter of 1965, while Canada's net balance with the International Monetary Fund rose by \$82 million. In the earlier quarters of the year Canada's official holdings of gold and foreign exchange declined by \$210 million, and the Canadian balance with the International Monetary Fund rose by \$139 million.

Official holdings of gold and United States funds, expressed in terms of United States dollars, were increased from \$2,480 million at the end of the second quarter to \$2,614 million at the end of the third. At the beginning of the year they had been \$2,674 million. The change in the third quarter, expressed in Canadian dollars, was an increase of \$145 million. The balance of the change in official holdings of gold and foreign exchange represented a decline of \$1 million of sterling.

Canada's so-called "gold tranche position" with the International Monetary Fund together with borrowing under the General Arrangements to Borrow, rose from \$326.5 million, expressed in United States dollars, at the beginning of the quarter to \$402.5 million at the end. The change reflected net drawings of Canadian dollars by other members of the IMF. Prominent among them was the United States which drew Canadian dollars equivalent to \$60 million in United States funds. From time to time in the past the United States has made drawings on the IMF selling the foreign currency obtained to other countries for their use in making repayments to the IMF which is unable to accept further United States dollars in repayment. Other member countries' drawings of Canadian dollars were equivalent to \$25 million in United States funds, while their repayments aggregated \$9 million. Overall these transactions increased Canada's net balance with the IMF by \$82 million expressed in Canadian funds.

United States Dollar in Canada

Exchange holdings and IMF Balance

						Official holdings of gold and United States dollars			Net balance with International Monetary Fund
Period		High	Low	Close	Noon average	End of period			
Canadian cents						millions of United States dollars			
1964	I Q	108.09	107.94	108.06	108.02	1964	I Q	2,466	20
							II Q	2,534	25
	II Q	108.25	108.03	108.13	108.09		III Q	2,625	80
							IV Q	2,674	197
	III Q	108.22	107.50	107.50	107.87				
	IV Q	107.63	107.25	107.38	107.46	1965	I Q	2,554	240
							II Q	2,480	327
							III Q	2,614	403
1965	I Q	108.44	107.31	107.97	107.71		July	2,492	342
	II Q	108.38	107.72	108.34	108.04	August	2,598	352	
	III Q	108.50	107.53	107.59	107.94	September	2,614	403	

Canada's Accounts with the International Monetary Fund

Period	Canadian assets			Canadian liabilities = IMF holdings of Canadian dollars					Canada's net balance with IMF(1)
	Transactions			Transactions					
	Subs- crip- tion (Quota)	Loans (GAB)	Total assets	Subs- crip- tions and loans	Net drawings of foreign currencies by Canada	Net drawings (-) of Cana- dian dollars by other countries	Sales of Canadian dollars to IMF for gold	Total liabi- lities	
	expressed in millions of United States dollars								
1947-61	550.0		550.0	412.5		- 99.6	25.0	337.9	212.1
1962			550.0		300.0	50.3		688.2	- 138.2
1963			550.0		- 79.7			608.5	- 58.5
1964		15.0	565.0	15.0	- 166.0	- 99.0	9.0	367.5	197.5
1965	IQ		565.0			- 42.0		325.0	240.0
	2Q	35.0	600.0	35.0		- 114.0	27.5	273.5	326.5
	3Q		600.0			- 76.0		197.5	402.5

(1) This is a cumulative measure of the net resources provided by Canada to the IMF. The Canadian dollar equivalent of the change appears as item H2 in the balance of payments statement. Canada's net balance with the IMF when positive represents the so-called "gold tranche position" plus borrowing under the General Arrangements to Borrow (GAB). This may be drawn by Canada virtually automatically on statement of balance of payments need, but Canada would then be under an obligation to restore its net balance to 25 per cent of the Quota.

Note: The statement is expressed in terms of United States dollar equivalents in accordance with the IMF practice. Since members are obligated to maintain the gold value of the IMF's holdings of their currencies, there have been adjustment payments between the IMF and Canada in Canadian dollars from time to time arising from changes in the exchange rate. These transactions are not reflected above because the series are shown in United States dollar equivalents, and do not appear in the balance of payments statements because only the change in Canada's net asset is shown. The adjustment transactions affect the Public Accounts of Canada.

Annual and Quarterly Estimates of the
Canadian Balance of International Payments

Included within this report are tables containing annual estimates of the Canadian balance of international payments, bilaterally with the United States, the United Kingdom, other sterling area countries, other OECD countries in Europe, and all other countries for the years 1962 through 1964 (Table I), and quarterly estimates of the Canadian balance of international payments with the United States for the years 1962 through 1964 (Table IV B). Quarterly estimates for 1963 and 1964 with all countries may be derived from the regular two page table in this report, and corresponding data for 1962 may be derived from the report for the second quarter of 1964.

It may be noted that new data available only after 1963 covering the international foreign currency banking operations of the Canadian banks contributed to a significant discontinuity in item D 17 of the bilateral data between 1963 and 1964. These complex operations and their statistical implications were described in the last report. The discontinuity at the end of 1963 implied an accumulated overstatement of net inflows from the United States and the United Kingdom of the order of \$200 million and \$250 million respectively, and a corresponding understatement of inflows from other overseas countries.

Note: Table I - pages 18 and 19. Table IV B - page 17.

TABLE IV. Quarterly Estimates of the Canadian Balance of International Payments, 1962-64

B. BETWEEN CANADA AND THE UNITED STATES

No.	Account	1962				1963				1964 ^P			
		I	II	III	IV	I	II	III	IV	I	II	III	IV
millions of dollars													
A	Current receipts:												
1	Merchandise exports (adjusted)	862	950	965	983	889	1,012	1,034	1,035	952	1,128	1,148	1,168
3	Gold production available for export	41	40	38	36	41	38	36	39	33	41	36	35
4	Travel expenditures	42	108	279	83	46	111	300	92	53	120	321	96
5	Interest and dividends	23	25	29	43	36	38	34	47	46	36	37	52
6	Freight and shipping	57	67	69	66	59	72	76	72	63	75	82	77
7	Inheritances and immigrants' funds	9	15	23	14	11	15	23	16	14	18	24	21
11	All other current receipts	85	81	82	83	81	85	85	85	84	84	86	87
12	Total current receipts	1,119	1,286	1,485	1,308	1,163	1,371	1,588	1,386	1,245	1,502	1,734	1,536
B	Current payments:												
1	Merchandise imports (adjusted)	991	1,136	1,031	1,047	1,030	1,159	1,084	1,185	1,232	1,410	1,230	1,335
4	Travel expenditures	92	138	122	67	79	110	130	69	109	131	149	92
5	Interest and dividends	142	179	137	203	158	170	147	252	190	180	167	286
6	Freight and shipping	71	91	98	93	71	97	108	102	74	105	111	104
7	Inheritances and emigrants' funds	29	30	39	41	34	35	41	43	35	36	43	43
9	Official contributions	—	—	—	—	—	—	—	—	—	—	—	—
11	All other current payments	136	138	133	136	139	145	138	144	154	152	149	155
12	Total current payments	1,461	1,712	1,560	1,587	1,511	1,716	1,648	1,795	1,794	2,014	1,849	2,015
C	Current account balance:												
1	Merchandise trade	- 129	- 186	- 66	- 64	- 141	- 147	- 50	- 150	- 280	- 282	- 82	- 167
2	Other transactions, excluding B 9	- 213	- 240	- 9	- 215	- 207	- 198	- 10	- 259	- 269	- 230	- 33	- 312
3	Official contributions	—	—	—	—	—	—	—	—	—	—	—	—
4	Totals	- 342	- 426	- 75	- 279	- 348	- 345	- 60	- 409	- 549	- 512	- 115	- 479
D	Capital account:												
	Direct investment:												
1	Direct investment in Canada	+ 80	+ 74	+ 80	+ 84	+ 58	+ 25	+ 63	+ 74	+ 57	+ 35	+ 46	+ 57
2	Direct investment abroad	—	+ 4	+ 2	+ 1	- 14	- 4	- 9	- 9	- 13	- 25	+ 13	- 36
	Canadian securities:												
3.1	Trade in outstanding bonds and debentures	- 7	+ 27	+ 42	+ 21	+ 19	+ 22	- 6	—	+ 1	+ 8	+ 23	+ 6
3.2	Trade in outstanding common and preference stocks	+ 15	- 3	- 5	- 18	- 31	- 29	- 14	- 25	- 30	—	+ 3	- 24
4	New issues	+ 46	+ 192	+ 78	+ 375	+ 397	+ 384	+ 89	+ 60	+ 129	+ 297	+ 104	+ 537
5	Retirements	- 59	- 54	- 46	- 90	- 50	- 149	- 39	- 77	- 88	- 71	- 51	- 68
6,7,8	Foreign securities	- 20	- 28	- 6	- 1	+ 3	+ 22	- 2	+ 2	- 10	- 32	- 6	- 5
	Loans and capital subscriptions by Government of Canada:												
9	Advances, etc.	—	—	—	—	—	—	—	—	—	—	—	—
10	Repayments to Canada	—	—	—	—	—	—	—	—	—	—	—	—
11	Columbia River Treaty, net	—	—	—	—	—	—	—	—	—	—	+ 54	—
13	Long-term capital transactions n.i.e.	- 10	- 146	+ 18	+ 22	+ 14	- 19	+ 31	+ 57	+ 10	+ 39	+ 80	+ 47
	Change in Canadian dollar holdings of foreigners:												
14.1	Deposits	- 16	+ 14	- 29	+ 46	- 16	+ 30	- 3	+ 20	+ 9	—	- 25	+ 50
14.2	Government of Canada demand liabilities	- 3	- 2	- 3	- 1	—	—	- 1	—	—	—	—	- 2
14.3	Canadian treasury bills	+ 24	+ 37	- 7	- 36	+ 2	- 7	+ 6	- 24	- 5	+ 3	- 5	- 10
17	Other capital movements	+ 26	- 307	+ 601	+ 79	- 49	+ 102	- 185	+ 132	+ 302	+ 295	- 112	+ 168
E	Net capital movement (excluding monetary items shown below) in:												
1	Long-term forms (D1 to D13)	+ 45	+ 66	+ 163	+ 394	+ 396	+ 252	+ 113	+ 82	+ 56	+ 251	+ 266	+ 514
2	Short-term forms (D14 to D17)	+ 31	- 258	+ 562	+ 88	- 63	+ 125	- 183	+ 128	+ 306	+ 298	- 142	+ 206
3	Totals	+ 76	- 192	+ 725	+ 482	+ 333	+ 377	- 70	+ 210	+ 362	+ 549	+ 124	+ 720
G	Balance settled by exchange transfers	- 97	+ 459	+ 36	+ 168	+ 80	+ 67	- 3	+ 227	+ 47	+ 37	+ 67	- 220
H = C + E + G	Official monetary movements in the form of:												
1	Change in official holdings of gold and foreign exchange	- 363	+ 113	+ 686	+ 102	+ 65	+ 99	- 133	+ 28	- 140	+ 74	+ 76	+ 21
2	Change in net International Monetary Fund position	—	—	—	—	—	—	—	—	—	—	—	—
3	Other special international financial assistance	—	- 272	—	+ 269	—	—	—	—	—	—	—	—

^P Preliminary estimate.

TABLE 1. Annual Estimates of the Canadian Balance of International Payments, 1962-64

No.	Account	All countries			United States		
		1962	1963	1964P	1962	1963	1964P
millions of dollars							
A	Current receipts:						
1	Merchandise exports (adjusted)	6,380	7,082	8,240	3,760	3,970	4,396
2	Mutual Aid to NATO countries	41	23	47	..	..	..
3	Gold production available for export	155	154	145	155	154	145
4	Travel expenditures	562	609	662	512	549	590
5	Interest and dividends	202	230	313	120	155	171
6	Freight and shipping	509	563	645	259	279	297
7	Inheritances and immigrants' funds	124	151	169	61	65	77
11	All other current receipts	451	473	502	331	336	341
12	Total current receipts	8,424	9,285	10,723	5,198	5,508	6,017
B	Current payments:						
1	Merchandise imports (adjusted)	6,203	6,579	7,540	4,205	4,458	5,207
4	Travel expenditures	605	585	712	419	388	481
5	Interest and dividends	794	860	978	661	727	823
6	Freight and shipping	595	648	685	353	378	394
7	Inheritances and emigrants' funds	175	186	190	139	153	157
9	Official contributions	36	65	69	—	—	—
10	Mutual Aid to NATO countries	41	23	47	..	..	..
11	All other current payments	849	881	935	543	566	610
12	Total current payments	9,298	9,827	11,156	6,320	6,670	7,672
C	Current account balance:						
1	Merchandise trade	+ 177	+ 503	+ 700	- 445	- 488	- 811
2	Other transactions, excluding B9	- 1,015	- 980	- 1,064	- 677	- 674	- 844
3	Official contributions	- 36	- 65	- 69	—	—	—
4	Totals	- 874	- 542	- 433	- 1,122	- 1,162	- 1,655
D	Capital account:						
	Direct investment:						
1	Direct investment in Canada	+ 495	+ 280	+ 255	+ 318	+ 220	+ 195
2	Direct investment abroad	- 109	- 135	- 140	+ 7	- 36	- 61
	Canadian securities:						
3.1	Trade in outstanding bonds and debentures	+ 64	+ 39	+ 77	+ 83	+ 35	+ 38
3.2	Trade in outstanding common and preference stocks	- 116	- 170	- 97	- 11	- 99	- 51
4	New issues	+ 728	+ 984	+ 1,123	+ 691	+ 930	+ 1,067
5	Retirements	- 320	- 404	- 358	- 249	- 315	- 278
6,7,8	Foreign securities	- 65	+ 22	- 63	- 55	+ 25	- 53
	Loans and capital subscriptions by Government of Canada:						
9	Advances, etc.	- 22	- 18	- 10	—	—	—
10	Repayments to Canada	+ 129	+ 25	+ 9	—	—	—
11	Columbia River Treaty, net	—	—	+ 54	—	—	+ 54
13	Long-term capital transactions n.i.e.	- 116	+ 14	+ 3	- 116	+ 83	+ 176
	Change in Canadian dollar holdings of foreigners:						
14.1	Deposits	- 13	+ 43	+ 28	+ 15	+ 31	+ 34
14.2	Government of Canada demand liabilities	- 4	+ 1	—	- 9	- 1	- 2
14.3	Canadian treasury bills	+ 4	- 27	- 16	+ 18	- 23	- 17
17	Other capital movements	+ 374	+ 34	- 69	+ 399	—	+ 653
E	Net capital movement (excluding monetary items shown below) in:						
1	Long-term forms (D1 to D 13)	+ 668	+ 637	+ 853	+ 668	+ 843	+ 1,087
2	Short-term forms (D 14 to D 17)	+ 361	+ 51	- 57	+ 423	+ 7	+ 668
3	Totals	+ 1,029	+ 688	+ 796	+ 1,091	+ 850	+ 1,755
G	Balance settled by exchange transfers	—	—	—	+ 566	+ 371	- 69
H = C + E + G	Official monetary movements in the form of:						
1	Change in official holdings of gold and foreign exchange	+ 537	+ 60	+ 86	+ 538	+ 59	+ 31
2	Change in net International Monetary Fund position	- 378	+ 86	+ 277	—	—	—
3	Other special international financial assistance	- 4	—	—	- 3	—	—

Notes:

A2, B10 Mutual Aid is not included in figures for countries or areas, but is included in total receipts and total payments with all countries.

D A minus sign indicates an outflow of capital from Canada. Some capital transactions with other sterling area are included under the United Kingdom, and with other overseas countries under the United States.

TABLE 1. Annual Estimates of the Canadian Balance of International Payments, 1962-64

United Kingdom			Other sterling area			Other OECD Europe			All other countries			No.
1962	1963	1964 ^P	1962	1963	1964 ^P	1962	1963	1964 ^P	1962	1963	1964 ^P	
millions of dollars												
924	1,017	1,219	338	409	517	622	662	749	736	1,024	1,359	1
..	..	..	..	..	..	..	..	..	..	..	..	2
—	—	—	—	—	—	—	—	—	—	—	—	3
22	28	33	8	8	11	14	16	17	6	8	11	4
29	31	81	31	26	39	11	8	8	11	10	14	5
98	105	132	29	33	48	62	68	75	61	78	93	6
28	43	46	8	12	13	19	21	21	8	10	12	7
63	74	93	9	11	12	28	28	31	20	24	25	11
1,164	1,298	1,604	423	499	640	756	803	901	842	1,154	1,514	12
578	521	584	326	418	417	454	474	558	640	708	774	1
71	70	80	21	21	23	75	86	105	19	20	23	4
89	82	97	1	1	1	41	48	54	2	2	3	5
88	94	98	5	5	7	124	137	148	25	34	38	6
18	15	15	4	4	4	11	11	11	3	3	3	7
—	—	—	29	57	58	—	2	1	7	6	10	9
..	..	..	..	..	..	..	..	..	..	..	..	10
102	102	123	21	23	24	140	145	136	43	45	42	11
946	884	997	407	529	534	845	903	1,013	739	818	893	12
+ 346	+ 496	+ 635	+ 12	- 9	+ 100	+ 168	+ 188	+ 191	+ 96	+ 316	+ 585	1
- 128	- 82	- 28	+ 33	+ 36	+ 64	- 257	- 286	- 302	+ 14	+ 26	+ 46	2
—	—	—	- 29	- 57	- 58	—	- 2	- 1	- 7	- 6	- 10	3
+ 218	+ 414	+ 607	+ 16	- 30	+ 106	- 89	- 100	- 112	+ 103	+ 336	+ 621	4
+ 64	+ 38	+ 31	- 4	- 11	- 2	+ 113	+ 37	+ 37	+ 4	- 4	- 6	1
- 22	- 40	- 19	- 43	- 13	- 40	- 30	- 33	- 14	- 21	- 13	- 6	2
—	- 5	- 1	—	—	—	- 19	+ 6	+ 41	—	+ 3	- 1	3.1
- 65	- 55	- 27	—	—	—	- 40	- 16	- 19	—	—	—	3.2
+ 17	+ 18	+ 19	—	—	—	+ 20	+ 22	+ 20	—	+ 14	+ 17	4
- 36	- 40	- 37	—	—	—	- 35	- 42	- 32	—	- 7	- 11	5
- 1	- 2	- 8	—	—	- 3	- 7	—	+ 3	- 2	- 1	- 2	6,7,8
—	—	—	—	- 10	- 2	—	—	—	- 22	- 8	- 8	9
+ 17	+ 18	—	+ 5	+ 5	+ 7	+ 107	+ 2	+ 2	—	—	—	10
—	—	—	—	—	—	—	—	—	—	—	—	11
+ 18	- 12	+ 8	- 4	—	- 24	+ 3	+ 20	- 2	- 17	- 77	- 155	13
- 12	+ 1	- 11	- 2	+ 5	+ 5	- 10	+ 6	+ 1	- 4	—	- 1	14.1
—	—	—	—	—	—	—	—	—	+ 5	+ 2	+ 2	14.2
—	- 1	+ 1	—	—	—	- 21	+ 1	- 1	+ 7	- 4	+ 1	14.3
- 31	- 16	- 654	- 20	+ 9	+ 6	+ 5	- 15	- 2	+ 21	+ 56	- 72	17
- 8	- 80	- 34	- 46	- 29	- 64	+ 112	- 4	+ 36	- 58	- 93	- 172	1
- 43	- 16	- 664	- 22	+ 14	+ 11	- 26	- 8	- 2	+ 29	+ 54	- 70	2
- 51	- 96	- 698	- 68	- 13	- 53	+ 86	- 12	+ 34	- 29	- 39	- 242	3
- 169	- 317	+ 146	+ 52	+ 45	- 53	+ 3	+ 112	+ 78	- 452	- 211	- 102	
- 1	+ 1	+ 55	—	—	—	—	—	—	—	—	—	1
—	—	—	—	—	—	—	—	—	- 378	+ 86	+ 277	2
- 1	—	—	—	—	—	—	—	—	—	—	—	3

Notes:

D17 Also includes balancing item representing unrecorded capital movements and errors and omissions.

^P Preliminary estimate.

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Note: Data for 1965 are preliminary and data for 1964 are subject to revision

No.		1963			1964	
		II	III	IV	I	II
		millions of dollars				
A	Current receipts:					
1	Merchandise exports (adjusted)	1,776	1,806	2,014	1,730	2,198
3	Gold production available for export	38	36	39	33	41
4	Travel expenditures	129	325	104	59	140
5	Interest and dividends	55	44	86	65	56
6	Freight and shipping	141	148	157	135	165
7	Inheritances and immigrants' funds	38	48	38	32	43
11	All other current receipts	119	119	118	122	124
12	Total current receipts	2,296	2,526	2,556	2,176	2,767
B	Current payments:					
1	Merchandise imports (adjusted)	1,702	1,655	1,810	1,695	2,048
4	Travel expenditures	158	204	109	150	187
5	Interest and dividends	198	181	285	236	209
6	Freight and shipping	164	178	178	137	176
7	Inheritances and emigrants' funds	44	50	53	40	45
9	Official contributions	18	16	16	12	16
11	All other current payments	221	218	224	244	234
12	Total current payments	2,505	2,502	2,675	2,514	2,915
C	Current account balance:					
1	Merchandise trade	+ 74	+ 151	+ 204	+ 35	+ 150
2	Other transactions, excluding B 9	- 265	- 111	- 307	- 361	- 282
3	Official contributions	- 18	- 16	- 16	- 12	- 16
4	Total	- 209	+ 24	- 119	- 338	- 148
D	Capital account:					
	Direct investment:					
1	Direct investment in Canada	+ 48	+ 74	+ 80	+ 69	+ 44
2	Direct investment abroad	- 42	- 29	- 33	- 44	- 68
	Canadian securities:					
3.1	Trade in outstanding bonds and debentures	+ 27	- 7	- 4	+ 4	+ 14
3.2	Trade in outstanding common and preference stocks	- 44	- 27	- 42	- 44	- 8
4	New issues	+ 405	+ 94	+ 75	+ 138	+ 318
5	Retirements	- 198	- 55	- 87	- 109	- 100
6,7,8	Foreign securities	+ 23	- 4	-	- 7	- 38
	Loans and capital subscriptions by Government of Canada:					
	Advances, etc.	-	- 8	- 10	- 2	-
10	Repayments to Canada	+ 6	-	+ 19	+ 4	+ 2
11	Columbia River Treaty, net	-	-	-	-	-
13	Long-term capital transactions n.i.e.	- 21	- 11	+ 27	- 24	- 12
	Change in Canadian dollar holdings of foreigners:					
14.1	Deposits	+ 38	- 11	+ 44	+ 20	- 9
14.2	Government of Canada demand liabilities	- 3	- 1	+ 5	-	- 3
14.3	Canadian treasury bills	- 17	+ 18	- 37	+ 4	+ 14
17	Other capital movements	+ 98	- 116	+ 110	+ 287	+ 62
E	Net capital movement (excluding monetary items shown below) in:					
1	Long-term forms (D1 to D13)	+ 204	+ 27	+ 25	- 15	+ 152
2	Short-term forms (D14 to D17)	+ 116	- 110	+ 122	+ 311	+ 64
3	Total	+ 320	- 83	+ 147	+ 296	+ 216
H = C+E	Official monetary movements in the form of:					
1	Change in official holdings of gold and foreign exchange	+ 111	- 145	+ 28	- 127	+ 62
2	Change in net International Monetary Fund position	-	+ 86	-	+ 85	+ 6
3	Other special international financial assistance	-	-	-	-	-

Notes: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in B 1) the annual reports on "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, B 11) insurance transactions, and business services.

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Note: Data for 1965 are preliminary and data for 1964 are subject to revision

1964		1965			Annual totals			Four quarters ended	No.
III	IV	I	II	III	1962	1963	1964	Sept. 30, 1965	
millions of dollars									
2,182	2,130	1,825	2,189	2,262	6,380	7,082	8,240	8,406	A 1
36	35	35	34	34	155	154	145	138	3
351	112	63	154	407	562	609	662	736	4
51	141	65	76	65	202	230	313	347	5
176	169	138	167	177	509	563	645	651	6
50	44	42	55	63	124	151	169	204	7
126	130	136	139	139	451	473	502	544	11
2,972	2,761	2,304	2,814	3,147	8,383	9,262	10,676	11,026	12
1,828	1,969	1,867	2,217	2,114	6,203	6,579	7,540	8,167	B 1
238	137	152	214	273	605	585	712	776	4
204	329	235	248	225	794	860	978	1,037	5
189	183	147	192	201	595	648	685	723	6
53	52	40	45	56	175	186	190	193	7
22	19	23	21	30	36	65	69	93	9
224	233	237	240	242	849	881	935	952	11
2,758	2,922	2,701	3,177	3,141	9,257	9,804	11,109	11,941	12
+ 354	+ 161	- 42	- 28	+ 148	+ 177	+ 503	+ 700	+ 239	C 1
- 118	- 303	- 332	- 314	- 112	- 1,015	- 980	- 1,064	- 1,061	2
- 22	- 19	- 23	- 21	- 30	- 36	- 65	- 69	- 93	3
+ 214	- 161	- 397	- 363	+ 6	- 874	- 542	- 433	- 915	4
+ 52	+ 90	+ 70	+ 120	+ 100	+ 495	+ 280	+ 255	+ 380	D 1
- 3	- 25	- 35	-	- 40	- 109	- 135	- 140	- 100	2
+ 37	+ 22	+ 3	+ 16	+ 38	+ 64	+ 39	+ 77	+ 79	3.1
- 5	- 40	- 83	- 83	- 28	- 116	- 170	- 97	- 234	3.2
+ 117	+ 550	+ 275	+ 295	+ 293	+ 728	+ 984	+ 1,123	+ 1,413	4
- 57	- 92	- 66	- 176	- 56	- 320	- 404	- 358	- 390	5
- 7	- 11	- 35	- 5	- 22	- 65	+ 22	- 63	- 73	6,7,8
-	- 8	-	-	-	- 22	- 18	- 10	- 8	9
+ 1	+ 2	+ 5	+ 2	+ 1	+ 129	+ 25	+ 9	+ 10	10
+ 54	-	-	-	-	-	-	+ 54	-	11
+ 34	+ 5	- 1	- 73	- 67	- 116	+ 14	+ 3	- 136	13
- 36	+ 53	+ 38	- 37	- 19	- 13	+ 43	+ 28	+ 35	14.1
-	+ 3	- 1	- 3	- 5	- 4	+ 1	-	- 6	14.2
- 16	- 18	+ 27	- 10	- 3	+ 4	- 27	- 16	- 4	14.3
- 229	- 189	+ 128	+ 318	+ 28	+ 374	+ 34	- 69	+ 285	17
+ 223	+ 493	+ 133	+ 96	+ 219	+ 668	+ 637	+ 853	+ 941	E 1
- 281	- 151	+ 192	+ 268	+ 1	+ 361	+ 51	- 57	+ 310	2
- 58	+ 342	+ 325	+ 364	+ 220	+ 1,029	+ 688	+ 796	+ 1,251	3
+ 97	+ 54	- 118	- 92	+ 144	+ 537	+ 60	+ 86	- 12	H = C+E 1
+ 59	+ 127	+ 46	+ 93	+ 82	- 378	+ 86	+ 277	+ 348	2
		-	-	-	- 4	-	-	-	3

Notes: D A minus sign indicates an outflow of capital from Canada.

D 1,2 Exclusive of undistributed profits.

D 17 This item includes mainly changes in private and chartered bank holdings of exchange, international money market transactions, loans, and changes in open account commercial indebtedness. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.

H 3 A minus sign indicates a receipt by Canada.

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Government
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CANADA. BUREAU OF STATISTICS

QUARTERLY ESTIMATES OF THE CANADIAN
BALANCE OF INTERNATIONAL PAYMENTS
FOURTH QUARTER 1965

Contains preliminary estimates for 1965
and statistics of Canada's international
investment position at the end of 1963.

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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS
FOURTH QUARTER 1965 AND PRELIMINARY ESTIMATES FOR THE YEAR 1965

Canada's international deficit on current account rose substantially from \$433 million in 1964 to a preliminary total of \$1,136 million in 1965. In the period preceding, the current deficit had declined fairly steadily from a peak of \$1,504 million in 1959. The adverse change in 1965 resulted from a continuing expansion of the current deficit with the United States, combined with a sharp contraction in the traditional surplus with overseas countries. This positive balance was exceptionally high in 1964, substantial exports of wheat and flour to Eastern Europe having been an important factor. Shipments of wheat on the second large contract with the U.S.S.R. began late in the third quarter of 1965.

Summary Statement

	1963	1964	1965	1964	1965				
				IV Q	I Q	II Q	III Q	IV Q	
	millions of dollars								
Merchandise trade balance	+ 503	+ 700	+ 101	+ 161	- 42	- 28	+ 155	+ 16	
Deficit on non-merchandise transactions	- 1,045	- 1,133	- 1,237	- 322	- 359	- 339	- 145	- 394	
Current account balance	- 542	- 433	- 1,136	- 161	- 401	- 367	+ 10	- 378	
Capital movements(1)	+ 688	+ 796	+ 1,293	+ 342	+ 329	+ 368	+ 216	+ 380	
Long-term forms	+ 637	+ 853	+ 608	+ 493	+ 121	+ 90	+ 214	+ 183	
Short-term forms	+ 51	- 57	+ 685	- 151	+ 208	+ 278	+ 2	+ 197	
Change in official holdings of gold, foreign exchange, and net balance with International Monetary Fund	+ 146	+ 363	+ 157	+ 181	- 72	+ 1	+ 226	+ 2	

(1) Excluding change in official exchange holdings.

With economic activity reaching closer to the level of current capacity, foreign resources were drawn upon to a larger degree. While merchandise exports increased to a record high level in response to generally buoyant demand abroad, the rise in imports was about \$600 million more, thereby cutting the trade surplus from \$700 million in 1964 to roughly \$100 million. The deficit on non-merchandise transactions also widened; and after an increase of some \$100 million in 1965, it exceeded the \$1,200 million level for the first time. Higher net payments on interest and dividends and on freight and shipping services together with increased official contributions accounted for one quarter as much again as the deficit rise for all non-merchandise transactions. An improvement in the balance on inheritances and migrants' funds was the principal offset.

Demands for real resources found a counterpart in financial pressures, and there was a sharp increase in capital flows to Canada. The pressures deriving from the underlying economic situation were augmented by exogenous events. These included efforts by the United States Administration to strengthen the balance of payments position of that country, and a sharp shock to investor confidence arising from the default of a Canadian finance company and the subsequent revelation of widespread involvement of other companies. These external and domestic factors created problems of considerable delicacy for the monetary authorities.

The inflow of foreign direct investment capital turned upwards, after four years of decline, but inflows in some long-term forms were inhibited, while repurchases of outstanding equities, influenced probably by market developments as well as perhaps by the Interest Equalization Tax in the United States, occurred on an increasing scale. Very great pressures were therefore concentrated on the one remaining substantial channel for long-term inflows (apart from direct investment), the sale

to non-residents of new issues, which remained unimpeded until November when joint action by the Canadian and United States governments caused large amounts of deliveries to be deferred until after the year-end. In the event, long-term forms of inflow over the year were equal to only 54 per cent of the deficit on current account.

The shortfall was supplied in the first half of the year through heavy drawbacks of residents' funds employed by the Canadian banking system in the Eurodollar market. During the year there was a substantial repatriation of Canadian finance company paper but these institutions were on balance able to obtain funds from non-residents in other forms. The announcement in the third quarter of the second large sale of wheat to the U.S.S.R. gave promise of future export receipts and there were anticipatory inflows. As the year closed there were further large inflows of capital on open account. Over the year Canada's net external monetary assets rose.

Export Balance on Merchandise Trade Declines

In the fifth year of continuing economic expansion, the preliminary estimate for 1965 of Canada's deficit on current account transactions with the rest of the world stood at \$1,136 million. This total was more than 2 1/2 times the deficit of \$433 million for 1964 and was about the same level as that for 1958. The fairly steady decline from the 1959 peak of \$1,504 million in the current account deficit, aggregating \$1,071 million up to 1964, was sharply reversed with an addition of \$703 million to the imbalance in 1965. This increase resulted from a continuing expansion in 1965 in the current account deficit with the United States, by \$276 million or over 16 per cent, combined with a cut of \$427 million or 35 per cent in Canada's traditional surplus with overseas countries, which was abnormally high in 1964 being swollen by exceptionally large shipments of wheat to Eastern Europe. A reduction of \$111 million or 18 per cent took place in the current account surplus with the United Kingdom, from \$607 million in 1964 to \$496 million in 1965.

Roughly 85 per cent of the expansion in the current account deficit originated in merchandise trade, with the export balance falling from \$700 million in 1964 to \$101 million. Merchandise exports and imports (both adjusted for balance of payments use) reached highest recorded levels in 1965, but the increase in imports was more than twice as great as that in exports. Net payments on non-merchandise transactions widened \$104 million, and exceeded the \$1.2 billion level for the first time. Since 1959, Canada's deficit on services had fluctuated in the rough range between \$1,050 million and \$1,150 million.

Adjusted merchandise exports gained \$497 million or 6 per cent from \$8,240 million to \$8,737 million in 1965. Exports, after allowance for regular seasonal fluctuations, grew in each quarter of 1965, with the rate of increase rising in the second half. The adjustment to the Trade of Canada export total for 1964 (a deduction of approximately \$64 million) represented mainly timing for wheat shipments and deliveries of aircraft for which progress payments had been received in earlier periods. The adjustment to balance of payments basis for 1965 by a subtraction of about \$27 million included the same two elements - a deduction for aircraft deliveries offset in part by an addition pertaining to wheat shipments.

One of the largest gains, as a group of related products, was recorded in exports of non-ferrous metals, up nearly \$180 million over 1964. Increases in shipments of aluminum were most significant, followed by those of nickel, lead, zinc, copper and other metals. Exports of meat and fish together rose close to \$40 million, seeds (in particular rapeseed) nearly \$25 million, and whisky about \$15 million. Deliveries of wood pulp gained over \$30 million, those of newsprint roughly \$35 million and those of chemicals and fertilizer together nearly \$40 million. Among manufacturers, the largest gains in exports reflect the Canadian-United States automotive arrangements agreed to in January 1965. (Large increases relating to these same arrangements also occurred in imports). Exports of motor vehicles (in the main automobiles) advanced approximately \$100 million over 1964, and of engines and automobile parts almost \$80 million. Exports of machinery were about \$45 million higher and of communication equipment nearly \$20 million larger.

The value of clearances of wheat was some \$135 million lower in 1965, with about 60 per cent of the decline attributable to shipments to the U.S.S.R. and other East European Communist countries. Other reductions in exports were indicated for: wheat flour (almost \$35 million), dairy produce (well over \$15 million), and uranium and railway rolling stock (more than \$20 million each).

In each of the quarters of 1965, the average prices of exports ranged between 1 1/2 and almost 2 per cent higher than in the corresponding periods of 1964.

Adjusted merchandise imports expanded 14 1/2 per cent from \$7,540 million in 1964 to a preliminary total of \$8,636 million in 1965. Relatively the increase was approximately of the same

Summary of Current Transactions with the United States, United Kingdom and Other Countries
1964 and 1965, and Changes Between the Periods

	1964	1965	Change	1964	1965	Change
millions of dollars						
<u>Fourth quarter</u>	<u>All countries</u>			<u>United States</u>		
Merchandise exports (adjusted)	2,130	2,461	+ 331	1,168	1,379	+ 211
Merchandise imports (adjusted)	1,969	2,445	+ 476	1,335	1,692	+ 357
Balance on merchandise trade	+ 161	+ 16	- 145	- 167	- 313	- 146
Other current receipts	631	625	- 6	368	402	+ 34
Other current payments	953	1,019	+ 66	680	715	+ 35
Balance on non-merchandise transactions ...	- 322	- 394	- 72	- 312	- 313	- 1
Total receipts	2,761	3,086	+ 325	1,536	1,781	+ 245
Total payments	2,922	3,464	+ 542	2,015	2,407	+ 392
Current account balance	- 161	- 378	- 217	- 479	- 626	- 147
<u>Calendar year</u>						
Merchandise exports (adjusted)	8,240	8,737	+ 497	4,396	4,986	+ 590
Merchandise imports (adjusted)	7,540	8,636	+ 1,096	5,207	6,042	+ 835
Balance on merchandise trade	+ 700	+ 101	- 599	- 811	- 1,056	- 245
Other current receipts	2,436	2,630	+ 194	1,621	1,764	+ 143
Other current payments	3,569	3,867	+ 298	2,465	2,639	+ 174
Balance on non-merchandise transactions ...	- 1,133	- 1,237	- 104	- 844	- 875	- 31
Total receipts	10,676	11,367	+ 691	6,017	6,750	+ 733
Total payments	11,109	12,503	+ 1,394	7,672	8,681	+ 1,009
Current account balance	- 433	- 1,136	- 703	- 1,655	- 1,931	- 276
<u>Fourth quarter</u>	<u>United Kingdom</u>			<u>Other Countries</u>		
Merchandise exports (adjusted)	306	312	+ 6	656	770	+ 114
Merchandise imports (adjusted)	144	173	+ 29	490	580	+ 90
Balance on merchandise trade	+ 162	+ 139	- 23	+ 166	+ 190	+ 24
Other current receipts	142	91	- 51	121	132	+ 11
Other current payments	99	98	- 1	174	206	+ 32
Balance on non-merchandise transactions ...	+ 43	- 7	- 50	- 53	- 74	- 21
Total receipts	448	403	- 45	777	902	+ 125
Total payments	243	271	+ 28	664	786	+ 122
Current account balance	+ 205	+ 132	- 73	+ 113	+ 116	+ 3
<u>Calendar year</u>						
Merchandise exports (adjusted)	1,219	1,184	- 35	2,625	2,567	- 58
Merchandise imports (adjusted)	584	625	+ 41	1,749	1,969	+ 220
Balance on merchandise trade	+ 635	+ 559	- 76	+ 876	+ 598	- 278
Other current receipts	385	359	- 26	430	507	+ 77
Other current payments	413	422	+ 9	691	806	+ 115
Balance on non-merchandise transactions ...	- 28	- 63	- 35	- 261	- 299	- 38
Total receipts	1,604	1,543	- 61	3,055	3,074	+ 19
Total payments	997	1,047	+ 50	2,440	2,775	+ 335
Current account balance	+ 607	+ 496	- 111	+ 615	+ 299	- 316

magnitude as that which occurred between 1963 and 1964, but the absolute rise of almost \$1,100 million in 1965 was the largest recorded in any one year. Progress payments on defence goods and civil aircraft added more than \$50 million to the Trade of Canada import total for 1964, but the negative adjustment in 1965 was of a negligible proportion.

Indicative of the tendency to utilize foreign resources in the face of mounting pressures of demand, as the slack in the Canadian economy was absorbed, the ratio of imports of goods to the Gross National Product has changed rather significantly. This ratio which had been fairly stable at about 15.3 per cent in the period 1960 to 1963, began to rise in early 1964 and moved up to a level higher than 16.5 per cent for the year 1965. This proportion was about the same as that for 1955, but was well under the 1956 ratio of over 18 per cent.

Less than 60 per cent of the \$1.1 billion rise in merchandise imports took place in the first 9 months, for which period detailed commodity information is available. Increases were indicated in almost the entire range of commodities. Machinery imports expanded \$100 million in the 9-month period, fabricated metal materials (preponderantly ferrous) well over \$100 million, and imports of automobiles, trucks and vehicle parts rose close to \$150 million. Smaller though still substantial increases were recorded in purchases abroad of chemical and plastic materials, equipment and tools, fuel oil and coal, and personal and household goods. The value of imports of raw sugar declined in 1965, although due only to a sharp reduction in prices.

In contrast to the movement of prices of exports, average import prices were slightly lower in the first half of 1965 as compared with the same months in 1964. Import prices, however, turned up rather sharply in the third quarter, and exceeded the average levels of August and September 1964.

Deficit on Services and Other Non-merchandise Items

Increases totalling \$108 million in net payments on interest and dividends and on freight and shipping services more than accounted for the \$104 million rise in the non-merchandise deficit to \$1,237 million in 1965. In addition, Canada's official contributions increased \$23 million to \$92 million, and the value of gold production available for export slipped down \$7 million to \$138 million, extending the gradual decline since 1962. But in continuation of the contraction which began a year earlier in 1961, the balance on inheritances and migrants' funds improved \$26 million to a small surplus, the first since 1951. Net payments on government account, other than official contributions, which declined, and the travel deficit which narrowed by \$1 million to \$49 million in 1965, contributed to restraining the rise in the "invisible" deficit.

Major Items in the Balance on Non-Merchandise Transactions

	1962	1963	1964	1965	Change in 1965
	millions of dollars				
Gold production available for export	+ 155	+ 154	+ 145	+ 138	- 7
Travel expenditures	- 43	+ 24	- 50	- 49	+ 1
Interest and dividends	- 592	- 630	- 665	- 733	- 68
Freight and shipping	- 86	- 85	- 40	- 80	- 40
Inheritances and migrants' funds	- 51	- 35	- 21	+ 5	+ 26
Official contributions	- 36	- 65	- 69	- 92	- 23
All other current transactions	- 398	- 408	- 433	- 426	+ 7
Balance on non-merchandise transactions	- 1,051	- 1,045	- 1,133	- 1,237	- 104

Except for a surplus of \$24 million in 1963, Canada's deficit on travel account has ranged between \$43 million and \$50 million since 1962. The deficit of \$49 million in 1965 is less than one-fourth as large as the level of \$207 million in both 1959 and 1960. In continuation of the movement in recent years, net payments on travel to overseas countries increased \$9 million to \$168 million in 1965, while the surplus with the United States gained \$10 million to \$119 million in 1965. Since its reappearance in 1962, this surplus with the United States has widened except for the contraction in 1964, which followed an unusually sharp rise in the previous year. Expenditures in Canada by travellers from the United States increased \$60 million to \$650 million in 1965, while Canadian payments to the United States rose \$50 million to \$531 million. With overseas countries the \$24

million increase in travel payments to \$255 million exceeded the gain of \$15 million to \$87 million in receipts. Overall receipts totalled \$737 million, up \$75 million from 1964, and payments were estimated

at \$786 million, after a rise of \$74 million in 1965. Both the receipts and payments stood at highest recorded levels. The travel deficit represented 4 per cent of all "invisible" deficit in 1965.

Travel Expenditures

	1962	1963	1964	1965	Change in 1965
millions of dollars					
United States:					
Receipts	512	549	590	650	+ 60
Payments	419	388	481	531	+ 50
Balance	+ 93	+ 161	+ 109	+ 119	+ 10
Overseas:					
Receipts	50	60	72	87	+ 15
Payments	186	197	231	255	+ 24
Balance	- 136	- 137	- 159	- 168	- 9
All Countries:					
Receipts	562	609	662	737	+ 75
Payments	605	585	712	786	+ 74
Balance	- 43	+ 24	- 50	- 49	+ 1

Among developments affecting the international travel account was a large gain in the number of visitors from overseas countries which appears to have been stimulated by reduced airline fares. At the same time there continued to be large rises in the numbers of Canadians travelling overseas, but their external expenditures rose more moderately as proportionately greater use was made of Canadian transportation facilities and the average duration of visits abroad tended to be shorter.

million on interest and dividends also reached the highest recorded level in 1965, and represented over 59 per cent of the whole deficit on non-merchandise transactions, which was the average for the 3 most recent years. The \$68 million expansion in the deficit from \$665 million in 1964 was the result of a rise of \$70 million in interest and dividend payments from \$978 million to \$1,048 million, offset slightly by a gain in receipts from \$313 million to \$315 million. Large sales to non-residents during 1964 and the first half of 1965 of new corporate, provincial and municipal bonds accounted mainly for the \$38 million increase in interest payments from \$336 million to \$374 million in 1965. Dividend payments rose \$32 million from \$642 million to \$674 million, as compared with a \$96 million increase in 1964, in which year approximately two-thirds was attributable to an extraordinary payment of dividends by a subsidiary to its parent in the United States. Nevertheless, because of larger pay-

ments of dividends by other subsidiaries in the final quarter of 1965 and also in the second quarter, together with higher profits of unincorporated branches in Canada, dividends on direct investment accounted for well over four-fifths of the growth in dividend payments. There continued to be substantial reinvestments in Canada of earnings of subsidiaries with major investment programs under way. A factor restraining the rise in dividend payments on portfolio investment to moderate proportions has been the continued liquidation of holdings of Canadian stocks by non-resident portfolio investors.

Interest and Dividends: Payments

Period	Total	Interest	Dividends
millions of dollars			
1962	794	284	510
1963	860	314	546
1964	978	336	642
1965	1,048	374	674
1963			
II Q	198	90	108
III Q	181	67	114
IV Q	285	92	193
1964			
I Q	236	73	163
II Q	209	94	115
III Q	204	72	132
IV Q	329	97	232
1965			
I Q	236	77	159
II Q	247	107	140
III Q	224	78	146
IV Q	341	112	229

A gain of some 15 per cent in interest receipts exceeded by a small margin the decline in dividend receipts. Increases in the latter in the two middle quarters of 1965 were more than offset by the

absence in the last quarter of extraordinary receipts in the same period of the preceding year. In both years there was a deferment of some \$20 million interest by the United Kingdom on the 1946 loan.

In the carriage of Canada's booming merchandising exports and imports, both receipts and payments on freight and shipping services rose to record levels in 1965 of \$656 million and \$736 million respectively. As the increase in payments of \$51 million was much larger than that of \$11 million in receipts, the deficit on freight and shipping services widened from \$40 million in 1964 to \$80 million, which represented more than 6 per cent of the entire deficit on non-merchandise transactions. While the 1965 deficit was double the preceding year's, it was lower than the average size of net payments of \$84 million for the 3-year period 1961 to 1963. The increase in receipts in 1965 originated largely from higher earnings of inland freight on exports. Rising inland freight and, more particularly, inland freight payments on imports accounted for the increase in disbursements for freight and shipping services.

Miscellaneous Current Transactions

	Receipts		Payments	
	1964	1965	1964	1965
	millions of dollars			
Government, excluding official contributions	141	156	178	177
Personal and institutional remittances	29	32	92	103
Miscellaneous income	90	121	186	215
Business services	242	264	479	504
Total	502	573	935	999
Balance			- 433	- 426

Official contributions, representing Canada's foreign economic aid in grants of goods and services amounted to \$92 million in 1965, the highest total in the postwar period. (The published total for 1946 is slightly larger, but it included large expenditures on account of UNRRA and other post-war relief.) About \$20 million worth of wheat shipped to India and Pakistan under the international food aid program was included in the 1965 total of official contributions. Contributions under other multilateral and bilateral programs (e.g., pertaining to emerging nations in Africa and in the Caribbean) were higher in 1965. The

deficit on other government expenditures narrowed in 1965 owing in large measure to the non-recurrence of a fairly substantial payment in early 1964 on account of Canada's share of the common defence costs in Korea. Net payments of personal and institutional remittances and of business services increased moderately in 1965, with the latter accounting for about 20 per cent of the total deficit on non-merchandise transactions. As mentioned before the value of gold production available for export, at \$138 million, was \$7 million smaller than for 1964.

The balance on inheritances and migrants' funds changed from a deficit of \$21 million to a surplus of \$5 million, on account of a rise of 30 per cent to nearly 147,000 in the number of immigrants in 1965. This immigration total was the largest since 1957.

Developments in the Fourth Quarter

Total receipts from the rest of the world for transactions in goods and services advanced nearly 12 per cent from \$2,761 million to \$3,086 million in the last quarter of 1965, while total payments increased over 18 per cent from \$2,922 million to \$3,464 million. Canada's deficit on current account thus more than doubled from \$161 million to \$378 million. This deficit was the highest on record for the fourth quarter, and, after seasonal adjustment, was larger than for any period except the third quarter of 1959. About two-thirds of the deterioration was derived from merchandise trade, as export balances dropped from \$161 million to \$16 million in the final quarter of 1965. Merchandise exports gained about 15 per cent from \$2,130 million to \$2,461 million, while merchandise imports expanded 24 per cent from \$1,969 million to \$2,445 million. The 22 per cent expansion in the deficit on non-merchandise transactions from \$322 million to \$394 million was wholly due to the rise in service payments from \$953 million to \$1,019 million. Almost every item shared in this \$72 million rise, but enlarged net payments of interest and dividends accounted for over 60 per cent of the increase in the non-merchandise deficit. Payments of interest rose \$15 million but dividend remittances contracted only \$3 million, despite the incidence in 1964 of unusually large dividends on direct investment, while receipts of interest and dividends together fell \$34 million to \$107 million. There were substantial receipts of dividends in the final quarter of 1964, not repeated a year later.

Transactions by Areas

Canada's deficit on transactions with the United States in current goods and services deepened over 16 per cent from \$1,655 million in 1964 to \$1,931 million, which was the highest recorded. The traditional current account surplus with overseas areas narrowed 35 per cent from \$1,222 million to \$795 million. The 1965 estimate was however still the next largest since 1952, when the surplus topped \$1 billion. Roughly one-quarter of the reduction in 1965 in the current surplus with overseas countries originated in transactions with the United Kingdom.

Total receipts on current transactions in goods and services with the United States were estimated at \$6,750 million in 1965, up \$733 million or 12 per cent from \$6,017 million in 1964. Total payments increased \$1,009 million or 13 per cent from \$7,672 million to \$8,681 million. In consequence, Canada's current account deficit widened \$276 million or more than 16 per cent from \$1,655 million to \$1,931 million. Nearly 90 per cent of the deterioration was ascribable to merchandise trade, with the increase in imports outpacing the gain in exports by \$245 million.

Current Account Balances with Principal Countries and Areas

	1963	1964	1965	Change in 1965
	millions of dollars			
United States	- 1,162	- 1,655	- 1,931	- 276
Overseas:				
United Kingdom	+ 414	+ 607	+ 496	- 111
Other Sterling Area	- 30	+ 106	+ 149	+ 43
Other OECD Europe ..	- 100	- 112	- 193	- 81
Other countries	+ 336	+ 621	+ 343	- 278
All countries	- 542	- 433	- 1,136	- 703

Merchandise exports of \$4,986 million to the United States in 1965 were \$590 million or more than 13 per cent above \$4,396 million for the preceding year. Included in this gain were many of the commodities referred to before in the analysis on exports to all foreign markets, such as automobiles, engines and motor vehicle parts, meat and fish, non-ferrous metal materials, petroleum and natural gas. Merchandise imports expanded \$835 million or 16 per cent from \$5,207 million to \$6,042 million in 1965. Larger imports of automobiles, trucks, engines and vehicle parts, machinery, industrial materials, including steel, other metals, coal, chemicals and plastics, and consumer goods contributed to the substantial expansion in imports.

The deficit on non-merchandise transactions with the United States went up \$31 million from \$844 million in 1964 to \$875 million. This resulted from a sharp rise in net payments on interest and dividends, a much smaller increase in the deficit on freight and shipping services, and a 5 per cent reduction in the value of gold production, which were offset in part by a rise in the travel surplus and reductions in the deficit on inheritances and migrants' funds and miscellaneous transactions.

Consistent favourable balances have characterized the exchange of goods and services between the United Kingdom and Canada; and these surpluses in the postwar period have fluctuated between about \$10 million and well over \$600 million. The current account surplus narrowed almost 20 per cent from \$607 million in 1964 to \$496 million, but the 1965 estimate was higher than the surplus in any of the postwar years except 1946, 1947 and 1964. Moderate changes of about 5 per cent in both receipts and payments took place between the most recent years. Total receipts declined from \$1,604 million to \$1,543 million, while total payments rose from \$997 million to \$1,047 million. Parallel changes were indicated in merchandise exports, which slipped down from \$1,219 million to \$1,184 million, and merchandise imports increased from \$584 million to \$625 million. The reduction in exports, concentrated mainly in newsprint, other paper products, steel products and other metallic materials, was probably a consequence of the imposition of import surcharges by the United Kingdom. Incomplete details indicate that manufactured commodities accounted for increased Canadian imports.

Most of the component items, and in particular interest and dividends, owing to extraordinary receipts of dividends in late 1964, contributed to the widening of \$35 million in the deficit on non-merchandise transactions to \$63 million in 1965. For the second successive year, the United Kingdom authorities deferred payment of regular interest amounting to some \$20 million on the 1946 loan. On account of the settlement in early 1964 of Canada's share of defence costs of operations in Korea, the deficit on government account was lower in 1965.

Canada's current account surplus with other countries was about halved from \$615 million in

1964 to \$299 million in 1965, which was however still higher than that for any other year since 1961. In that year a positive current balance reappeared with overseas countries other than the United Kingdom, following the entry of Mainland China into the Canadian market for sizable purchase of wheat and also increased shipments of grain to Communist countries in Eastern Europe. An estimated increase of \$43 million in 1965 in current surplus with other sterling area countries offset about one-half of the expansion in the deficit of \$81 million with other OECD countries in Europe. Thus nearly 90 per cent of the \$316 million decline in the current surplus with the whole group of other countries originated in transactions with the remaining countries. Merchandise exports to the other countries group declined 2 per cent from \$2,625 million to \$2,567 million. Merchandise imports rose \$220 million or over 12 per cent from \$1,749 million to \$1,969 in 1965. Exports to other sterling area countries and other OECD Europe group expanded, but declined substantially to remaining countries. The reduction in shipments of wheat to this last named area alone amounted to about \$120 million. Merchandise imports declined from other sterling area (raw sugar being an import contributor) but rose substantially from, in particular, other OECD countries in Europe and from remaining countries. The deficit on non-merchandise transactions widened nearly 15 per cent from \$261 million to \$299 million, with most of the deterioration arising from transactions with countries outside the sterling area. Ameliorating changes covering interest and dividends and inheritances and migrants' funds were outweighed by increased official contributions and net payments on miscellaneous transactions.

Financing of Canada's Bilateral Account with the United States

	1962	1963	1964	1965	1964	1965				
					IV Q	I Q	II Q	III Q	IV Q	
	millions of dollars									
<u>Transaction with the United States(1)</u>										
Current account balance	- 1,277	- 1,316	- 1,800	- 2,069	- 514	- 624	- 570	- 215	- 660	
Capital movements in long-term forms	+ 668	+ 843	+ 1,087	+ 840	+ 514	+ 178	+ 157	+ 271	+ 234	
Capital movements in short-term forms(2)	+ 423	+ 7	+ 668	- 372	+ 206	- 177	- 150	- 288	+ 243	
Total	- 186	- 466	- 45	- 1,601	+ 206	- 623	- 563	- 232	- 183	
<u>Financing</u>										
Transactions with rest of world:										
Current account balance	+ 248	+ 620	+ 1,222	+ 795	+ 318	+ 188	+ 169	+ 190	+ 248	
Capital movements in long-term forms	-	- 206	- 234	- 232	- 21	- 57	- 67	- 57	- 51	
Capital movements in short-term forms(2)	- 62	+ 44	- 725	+ 1,057	- 357	+ 385	+ 428	+ 290	- 46	
Sub-total	+ 186	+ 458	+ 263	+ 1,620	- 60	+ 516	+ 530	+ 423	+ 151	
Gold production available for export	+ 155	+ 154	+ 145	+ 138	+ 35	+ 35	+ 34	+ 35	+ 34	
Increase (-) in official Canadian holdings of gold, foreign exchange, net asset with the IMF, etc.										
Total	+ 186	+ 466	+ 45	+ 1,601	- 206	+ 623	+ 563	+ 232	+ 183	

(1) Excluding gold production available for export and changes in official monetary assets, shown with financing.

(2) There is a discontinuity at the end of 1963 in the allocation bilaterally of capital movements in short-term forms, implying accumulated earlier net overstatements of inflows from the United States and corresponding net understatements of inflows from the rest of the world of the order of \$200 million.

Canada's current account deficit with the United States in 1965 (excluding gold production available for export, which is conventionally attributed to the United States account) leapt upwards to \$2,069 million, from \$1,800 million in 1964 and from its earlier record of \$1,789 million in 1956. Capital movements between the two countries in both long and short-term forms (apart from changes in

official holdings of gold and United States dollars) involved an inflow of \$468 million. (The long term component represented an inflow of \$840 million which was nearly a quarter of a billion dollars smaller than in 1964, while there was a swing of more than a billion dollars in short-term movements to an outflow of \$372 million. The capital balance with the United States accordingly declined by \$1,287 million from an inflow of \$1,755 million in 1964). In sum these transactions with the United States gave rise to record net payments by Canada of \$1,601 million. This massive bilateral imbalance contrasted with only \$45 million in 1964. Both years were affected by abnormally large shifts in the foreign currency operations of the Canadian banking system, but even taken over the two year period the transactions are revealed to be an extraordinarily important source of strength to the United States balance of payments position.

On a quarterly basis the imbalance tended to contract successively during 1965 from \$623 million in the first quarter to \$183 million in the final quarter, at which level it remained high by historical standards.

It may be noted that corresponding data compiled from United States sources differ considerably and indicate smaller although similar imbalances substantial differences on current account arise in the balances for both commodities and invisibles, where Canadian data indicate larger deficits than are seen under the United States reporting systems. These discrepancies appear to stem from statistical differences in coverage, classification, valuation and to a lesser extent timing. There are also differences in the measures of capital flows in which however differences in the distribution of items are more prominent than in the totals.

With the United Kingdom and other overseas countries the pattern of imbalance tended to be complementary. Canada achieved a current account surplus of \$795 million and received net capital flows of \$825 million. This current account surplus was \$427 million below the abnormally high earnings of 1964, while the capital flows showed a swing of \$1,784 million from the outflows of \$959 million in 1964; capital flows in long-term forms were relatively unchanged over the last three years, and the change in short-term movements again reflected to a considerable extent shifts in the foreign currency operations of the Canadian banking system. These transactions with overseas countries in 1965 together produced \$1,620 million (which made possible the deficit of \$1,601 million incurred in transactions with the United States). The quarterly distribution of this total shows considerable stability over the first three quarters with a tendency to moderate in the final quarter.

Canadian gold production available for export in 1965 added \$138 million to the world's monetary gold stocks and Canada's official holdings of gold, foreign exchange and balance with the International Monetary Fund rose by a net amount of \$157 million.

Bilateral Foreign Currency Operations of the Canadian Banking System

An alternative form of summary bilateral statement is provided which isolates in respect of the United States and of other countries for 1964 and 1965 the capital movements arising from foreign currency operations of the Canadian banking system separately from all other transactions, while another statement provides further details of the banking operations. Technical descriptions of the statistics and their treatment in the estimates has appeared in earlier quarterly reports.

These statements show the net effects on Canada's balance of payments statements of the foreign currency operations of the Canadian banking system to have been net inflows of \$297 million and net outflows of \$600 million from the United States and to the rest of the world respectively in 1964, and net outflows of \$529 million and net inflows of \$955 million to the United States and from the rest of the world respectively in 1965. Thus over the two year period there were outflows of \$232 million to the United States and inflows of \$355 million from the rest of the world, involving swings respectively of \$826 million and \$1,555 million. On balance in 1965 these operations provided financing for well over a third of the deficit on current account.

The data for 1965 may be seen to comprise three distinct phases.

During the first and second quarters there were very sharp declines, aggregating nearly \$600 million, in deposit liabilities in foreign currencies to residents of the United States, declines which must be related in part at least to the application of the balance of payments guidelines introduced by the United States authorities. The Canadian banks reduced their assets in the United States, but by only half this amount, leaving a net outflow to the United States of \$300 million. In the same period the Canadian banks attracted more than \$200 million of deposits from overseas, but concurrently they reduced the funds employed there by more than \$550 million, a shift of more than \$750 million in all.

Bilateral Summary of Canada's Balance of Payments 1964 and 1965
showing net capital movement arising from the foreign currency
operations of the Canadian Chartered Banks

Item	United States			Other Countries			All Countries		
	1964	1965	Change	1964	1965	Change	1964	1965	Change
	(millions of dollars)								
Current account balance	- 1,800(1)	- 2,069(1)	- 269(1)	+ 1,222	+ 795	- 427	- 578(1)	- 1,274(1)	- 696(1)
Capital movements arising from foreign currency operations of the Canadian banking system	+ 297	- 529	- 826	-	600	+ 955	- 303	+ 426	+ 729
All other transactions	+ 1,458	+ 997	- 461	- 359	- 130	+ 229	+ 1,099	+ 867	- 232
Total	- 45	- 1,601	- 1,556	+ 263	+ 1,620	+ 1,357	+ 218	+ 19	- 199
Gold production available for export							+ 145	+ 138	- 7
Net increase in official Canadian holdings of gold, foreign exchange and net balance with International Monetary Fund							+ 363	+ 157	- 206

(1) Excluding gold production available for export (conventionally attributed to current account with the United States) and changes in official monetary assets, shown below with all countries only.

Canadian Chartered Banks

Net Transactions in Foreign Currency Assets and Liabilities of Head Offices and Branches in Canada

	Year		1965			
	1964	1965	I Q	II Q	III Q	IV Q
millions of dollars						
<u>Assets with residents of:</u>						
United States	40	- 208	- 215	- 83	271	- 181
Other Countries	691	- 440	- 231	- 324	16	99
Total non-resident	731	- 648	- 446	- 407	287	- 82
Canada (b)	198	276	100	71	60	45
Totals	929	- 372	- 346	- 336	347	- 37
<u>Liabilities with residents of:</u>						
United States	337	- 737	- 337	- 261	- 25	- 114
Other Countries	91	515	110	102	289	14
Total non-resident	428	- 222	- 227	- 159	264	- 100
Canada (a)	532	- 107	- 167	- 136	143	53
Totals	960	- 329	- 394	- 295	407	- 47
<u>Net Assets with residents of:</u>						
United States	- 297	529	122	178	296	- 67
Other Countries	600	- 955	- 341	- 426	- 273	85
Total non-resident	303	- 426	- 219	- 248	23	18
Canada	- 334	383	267	207	- 83	- 8
Totals (a)	- 31	- 43	48	- 41	- 60	10

This statement shows the effect on Canada's balance of payments of foreign currency banking operations of the Canadian Chartered Banks. As described on page 14 of the report for the second quarter of 1965, the amounts identified as (a) are embodied within item D 17.1 (e.g. this item in 1965 includes \$150 million, reflecting decreases of \$107 million in residents' holdings of foreign currency deposits with Canadian chartered banks in Canada and of \$43 million in the net foreign currency holdings of these institutions); the amount identified as (b) is embodied within items D 13 and D 17.5 (e.g. in 1965 as an aggregate inflow of \$276 million). The figures are based on data published monthly in the Statistical Summary of the Bank of Canada, but have been adjusted so as to eliminate changes in value resulting from variations in exchange rates.

In the third quarter there was a further large increase in foreign currency deposits attracted from overseas, approaching \$300 million, probably reflecting in some measure the improved balance of payments position in some parts of Europe. At the same time repatriation of United States owned deposits fell to only \$25 million from the very large flows earlier. The moderation of United States withdrawals, and the large receipts from overseas contributed to a growth of foreign currency assets which was largely employed in the United States. Accordingly, the reduction of assets there which occurred in the first half of the year coincidentally with the reduction of deposit liabilities, was substantially reversed in the third quarter.

Finally, in the fourth quarter of the year, when there were increased withdrawals of United States owned deposits, but some increases in Canadian owned deposits, the banks apparently found advantageous opportunities for the employment of funds overseas and there occurred a modest decline in

their net position vis-à-vis United States residents and a modest increase in their net position vis-à-vis other countries. Nevertheless over the year as a whole, and indeed over the two year period, 1964 and 1965, the Canadian banking system served on balance to channel funds to, rather than from, the United States.

Capital Movements

Summary	1963	1964	1965	1964	1965				
				IV Q	I Q	II Q	III Q	IV Q	
millions of dollars									
Capital movements in long-term forms	+ 637	+ 853	+ 608	+ 493	+ 121	+ 90	+ 214	+ 183	
Capital movements in short-term forms(1)	+ 51	- 57	+ 685	- 151	+ 208	+ 278	+ 2	+ 197	
Balance on goods and services	- 542	- 433	- 1,136	- 161	- 401	- 367	+ 10	- 378	
Change in official holdings of gold, foreign exchange, and net balance with the International Monetary Fund	+ 146	+ 363	+ 157	+ 181	- 72	+ 1	+ 226	+ 2	

(1) Excluding items in final line.

The net capital inflow into Canada (apart from the official monetary movements shown separately in the balance of payments statements) totalled \$1,293 million in 1965 compared with \$796 million in 1964. Capital movements in long-term forms estimated at \$608 million in 1965 were however well below the 1964 figure of \$853 million and lower than for any year in the past decade. At this level they formed less than half the net inflow and were equivalent to about 54 per cent of the deficit on current account. Capital inflows in short-term forms at \$685 million were unprecedented and were equivalent to 60 per cent of the deficit on current account. As already noted inflows related to the foreign currency operations of the Canadian banking system made up about a third of the net inflow.

The principal factors in the reduction between 1964 and 1965 of net capital inflows in long-term forms were a substantially increased outflow for the repatriation of Canadian equities, and a substantial contraction in bank and other borrowing. The effects of these declines were partly ameliorated by enlarged inflows for direct investment in Canada.

It will be recalled that in the fourth quarter of 1965 arrangements were made to defer until 1966 deliveries of Canadian new issues in the United States market. Some special interest may therefore attach to the statement comparing actual inflows in long-term forms with series adjusted to reflect the timing of security offerings. This shows that undelivered issues rose by \$251 million during the year (including \$112 million net in the fourth quarter), and that the inflow in long-term forms, had all sales been delivered, would have been \$859 million in 1965 compared with \$782 million in 1964. The 1965 figure would then have been equivalent to 76 per cent of the deficit on current account.

Volatility is a characteristic of capital movements in short-term forms. The very large shift of nearly three-quarters of a billion dollars in 1965 reflected substantial inflows mainly through reductions of Canadian holdings abroad of bank balances and other short-term funds. A major swing to outflows covering repayments of short-term finance company paper was partially offset by enlarged external borrowing of other sorts by these institutions, and there were also enlarged inflows arising from changes in intercompany account balances, other short-term loans and accounts payable, etc.

Statistics of the balance of payments can only be properly interpreted and balance of payments developments can only be properly evaluated against the changing domestic and external environments which they link. Within the scope of this publication it is possible only to point to some of the factors needed for appraisal. The influence of the sharply rising level of economic activity in North America during 1965 has already been noted, as has been the recurring demand for Canadian wheat from the Sino-Soviet countries.

This is not the place to describe in any great detail the special financial relationships existing between Canada and the United States, but it may be appropriate to indicate some of the principal developments in the vigorous efforts of the United States authorities to achieve a greater measure of balance in their international transactions which have been of considerable significance for Canada.

Capital Movements in Long-Term Forms

Period	Actual inflow	Adjusted to reflect timing of security offerings
millions of dollars		
1962	+ 668	+ 948
1963	+ 637	+ 426
1964	+ 853	+ 782
1965	+ 608	+ 859
1964	I Q - 15	- 49
	II Q + 152	+ 96
	III Q + 223	+ 429
	IV Q + 493	+ 306
1965	I Q + 121	+ 205
	II Q + 90	+ 57
	III Q + 214	+ 302
	IV Q + 183	+ 295

Borrowings by Canadian residents on the New York capital market increased during 1964 with most activity centred around the beginning of September of that year when the Interest Equalization Tax legislation was promulgated in the United States and the anticipated exemption for Canadian new issues was established. In keeping with the spirit of the Canadian undertaking to the United States that it was not its intention to increase its foreign exchange reserves through the proceeds of borrowing in the United States, the Minister of Finance in December 1964 appealed to the provincial authorities to avoid as far as possible adding to the volume of new Canadian issues in the United States at that time.

In February 1965 a programme of guidelines was introduced by the United States authorities aimed at voluntary action to reduce outflows of United States capital and to repatriate excess liquid holdings abroad. These guidelines con-

tained some specific provisions for Canada in keeping with the circumstances which had been recognized in the exemption granted new Canadian issues from the interest equalization tax. Nevertheless the guidelines led to some difficulties in the Canadian market for short-term securities which did not benefit from the special provisions applicable to long-term investment. They also had marked effects on the foreign currency banking operations of the Canadian chartered banks. Canadian banks were requested by the Canadian Government to conduct their foreign currency operations in a way that would reinforce and not prejudice the effects of the United States program.

As this report shows, in the latter part of 1965, at a time when the Canadian balance of international payments is normally relatively strong, the current account and general balance of payments were suddenly strengthened as a result of the second large wheat sale to Russia. During the autumn Canadian borrowers were also selling a large volume of Canadian securities in the United States. As a result Canada's exchange reserves, including the net creditor position in the International Monetary Fund, increased well above the level at which it was aimed to hold them in accordance with the understanding with the United States. The Canadian authorities regarded this abnormal rise as temporary, but it coincided with a period when the United States was quite concerned over its balance of payments.

Accordingly after reviewing the matter with the United States authorities, the Minister of Finance agreed that the financial authorities of both countries should cooperate in requesting Canadian borrowers and their underwriters to endeavour to defer until 1966 the delivery to the Canadian borrowers of the proceeds of security issues in the United States. The United States authorities informed the Minister that they would place no impediment in the way of making such deferred deliveries in 1966. As a result of this action in November 1965 it was hoped to smooth out the quarterly flow of capital between the two countries in a manner that better reflected the balance of payments requirements.

In the late fall the United States authorities decided that their balance of payments position required the adoption of further guideline measures. Two were of major concern to Canada. The first requested United States financial institutions other than banks to limit the increase in their holdings of long-term foreign investments to a small portion of their holdings at an earlier date. The Canadian authorities considered that this restriction on the sale of long-term securities in the United States, if applied to Canada, would have had very serious adverse effects. Accordingly they sought and obtained an exemption from this restriction, justified on the same grounds as the original exemption from the interest equalization tax, and in consideration for a Canadian undertaking of the same kind regarding the level of Canadian reserves. Since it was not considered desirable to rely too heavily on general monetary and fiscal measures to control the inflow of capital, alternative techniques involving the repatriation of outstanding Canadian securities in the United States would be used if necessary.

The second important measure was a voluntary ceiling on direct investment by United States corporations. Vigorous representations were made by the Canadian authorities that the application of this guideline to Canada was inappropriate but after consideration the United States authorities came

to the conclusion that the guideline had to be without special exceptions if it was to be effective in meeting the aims of their general balance of payments program.

Widespread concern has been evoked in Canada by the developments in the United States program to strengthen its balance of payments position. The subject was discussed in March 1966 by the Joint Canada-United States Ministerial Committee on Trade and Economic Affairs. The Secretary of State for External Affairs has reported to the House of Commons that the United States members made clear that the United States Government was not requesting United States corporations to induce their Canadian subsidiaries to act in any way that differed from their normal business practices as regards the repatriation of earnings, purchasing and sales policies, or their other financial and commercial activities.

As the statistics in this report show, Canada's international transactions have on balance contributed strength to the United States balance of payments position. The difficulties which have been experienced in adapting the United States measures to Canada's special relationship are in some sense a reflection of that relationship.

Direct Investment

The net movement of capital into Canada for direct investment in foreign-controlled enterprises during 1965 amounted to \$390 million. This represented a sharp increase from the total of \$255 million in 1964. The 1964 figure was the lowest recorded since 1950; the figure for 1965, although up sharply over 1963 and 1964, did not reach the levels recorded in the years from 1953 to 1962.

On balance the net inflows in 1965 reflected additional investment by foreign corporations in their Canadian subsidiaries or branches and contributed to new capital formation in Canada. Small outflows occurred on balance from transactions involving the take-over of existing concerns, refinancing, etc. These transactions also contributed to the quarterly pattern of flows and if they are abstracted, the remaining movements show greater regularity.

Industrially, the long period during which capital inflows for direct investment were dominated by the demands of the petroleum and natural gas industry and of mining came to an end in 1963 when manufacturing assumed first place. It seems likely that this distribution continued in 1965 and that inflows to manufacturing again led inflows both to the petroleum and natural gas industry and to mining.

Geographically, the bulk of the net inflow for direct investment continued to come from the United States. Net movements from that country accounted for something like four-fifths of the total inflow in 1965, with most of the remaining flows originating in overseas countries other than the United Kingdom.

The increase of \$135 million to \$390 million in direct investment flows to Canada in 1965 may be compared with the increase of \$462 million to \$2,925 million in capital expenditures in 1965 on construction, machinery and equipment by all mining and manufacturing enterprises in Canada as shown in the DBS publication, "Private and Public Investment in Canada, Outlook 1966 and Regional Estimates" (Catalogue 61-205). These areas (which include petroleum refining and oil wells) are those in which non-resident capital has tended to be most prominent. It will be noted, however, that foreign-controlled concerns in Canada have many sources of funds available apart from direct investment flows, and that they have also other needs for funds to finance inventories, receivables, etc.

Although foreign-controlled enterprises account for an important part of investment activity in Canada, the financing role of direct investment flows of capital has tended to decline in recent years both in volume and relative importance. Most investment is financed from funds generated within the corporations themselves from such sources as depreciation allowances and retained earnings. Direct investment flows are one of the methods used by foreign-controlled corporations to augment these sources and are in this sense marginal. New material in the November, 1965 issue of the "Survey of Current Business" (published by the Office of Business Economics, United States Department of Commerce) indicates that funds obtained from the United States by Canadian affiliates of United States companies in the manufacturing, mining and petroleum industries, represented only 13, 10 and 6 per cent of the total funds available to them in 1962, 1963 and 1964 respectively from net income retained, depreciation and depletion, and funds raised in the United States and elsewhere. The funds obtained from the United States include not only amounts treated as direct investment in Canadian data, but also new portfolio issues in United States markets and borrowing there in short term forms (all of which are included in United States statistics as direct investment).

Preliminary estimates of the movement of capital for direct investment abroad in 1965 indicate a net outflow of \$115 million which was considerably below the record of \$140 million established in 1964. This figure was divided about evenly between the United States and overseas countries other than the United Kingdom; the flows between Canada and the United Kingdom were nearly in balance. As has been the case in the past there was a wide variety of types of transactions, ranging from the extension of petroleum transportation facilities to the acquisition and extension of secondary manufacturing plants, travel and recreation facilities, publications, etc. Some major investments were disposed of during the period including mining interests.

Security Transactions

Transactions in portfolio securities between Canada and other countries in 1965 produced a net capital inflow of \$503 million, substantially less than the inflow of \$682 million recorded in 1964. The inflow from security transactions was again larger than the inflow for direct investment in foreign-controlled enterprises, which until recently constituted the major type of long-term capital inflow. The United States was the sole net source of portfolio security capital in 1965 although, on balance, the value of securities purchased from Canadian residents in 1965 was below the 1964 level (\$568 million compared with \$723 million). During 1965 Canada's transactions in portfolio securities with the United Kingdom and other foreign countries led to net outflows of \$56 million and \$9 million respectively.

Portfolio Security Transactions Between Canada and Other Countries

Net sales (+) or purchases (-) by Canadians	Year		1965			
	1964	1965	I Q	II Q	III Q	IV Q
	millions of dollars					
Canadian securities:						
Outstanding - Bonds	+ 77	+ 64	+ 3	+ 17	+ 38	+ 6
Stocks	- 97	- 241	- 83	- 84	- 28	- 46
New issues	+ 1,123	+ 1,127	+ 273	+ 306	+ 298	+ 250
Retirements	- 358	- 373	- 66	- 176	- 57	- 74
Foreign securities:						
Outstanding issues	- 46	- 42	- 11	- 13	- 16	- 2
New issues	- 27	- 54	- 27	- 6	- 8	- 13
Retirements	+ 10	+ 22	+ 3	+ 14	+ 2	+ 3
Total, All countries	+ 682	+ 503	+ 92	+ 58	+ 229	+ 124
United States	+ 723	+ 568	+ 132	+ 78	+ 223	+ 135
United Kingdom	- 54	- 56	- 21	- 19	- 6	- 10
Other countries	+ 13	- 9	- 19	- 1	+ 12	- 1

It will be seen from the accompanying statement, which shows the composition of transactions in 1965, that the \$179 million fall in capital inflows between 1964 and 1965 resulted mainly from a \$144 million rise in the repatriation of foreign-held Canadian equities. In addition Canadian purchases of new issues of foreign securities increased by \$27 million.

Sales of new Canadian issues during 1965 at \$1,127 million were slightly higher than in 1964. Sales of new corporation bonds and debentures, much of which was for further expansion of the pulp and paper, and petroleum and natural gas industries, brought in record proceeds of \$696 million, but sales of new issues of provincial and municipal governments declined sharply to \$298 million and \$84 million respectively. In 1965, as in 1964, there were no Government of Canada new issues denominated in foreign currencies or placed on foreign capital markets, although small amounts of issues denominated in Canadian dollars placed on the domestic market were sold abroad.

New Issues of Canadian Bonds Sold to
United States Residents

Period		Offerings	Deliveries	Un- delivered(1)
millions of dollars				
1963	Year	711	922	122
1964	"	983	1,054	51
1965	"	1,326	1,075	302
1965	I Q	339	255	135
	II Q	265	298	102
	III Q	378	290	190
	IV Q	344	232	302

(1) At end of period.

Substantial amounts of the offerings in 1965 especially in the third and fourth quarters, were for later delivery. The undelivered balance of sales at the end of 1965 was \$302 million or nearly six times the year-end figure for 1964. This is in part a reflection of the joint request made in November by the Canadian and United States Governments to defer until January 1966 the delivery of new Canadian issues placed on the New York capital market.

The high level of retirements of Canadian securities which has been a significant feature of security transactions in recent years was maintained in 1965 when an outflow of \$373 million was recorded. Retirements of corporation securities in 1965, represented 56 per cent of the total outflow for retirements. Retirements of corporation bonds and debentures showed a substantial increase to account for an aggregate outflow of \$201 million. On the other hand, the outflow for the retirement of equities at \$7 million represented an appreciable drop from the high levels of recent years which had reflected takeovers of private utility companies by provincial authorities. Retirements of government bond issues were somewhat down from 1964 levels.

Canadian residents purchased \$54 million of new foreign securities in 1965, twice the 1964 amount. Purchases of new United States securities rose sharply to \$26 million, while an offering of a new Canadian dollar issue by an international institution accounted for most of the unusually high outflow of \$28 million recorded for other foreign countries. The retirement of a Canadian dollar issue of the same international institution also constituted a major part of the capital inflow of \$22 million arising from total retirements of Canadian-held foreign securities in 1965.

The capital outflow from Canada's international trade in outstanding Canadian and foreign portfolio securities reached a record high of \$219 million in 1965. This was over 80 per cent higher than the previous record outflow of \$120 million registered in 1962 and was chiefly attributable to a sharp increase in the net repatriation of Canadian equities to \$241 million - the highest level yet recorded. Net sales of outstanding Canadian bonds and debentures were concentrated in the second and third quarters, which accounted for \$55 million of the total inflow of \$64 million. Government of Canada direct and guaranteed issues attracted over four-fifths of the total inflow. Trade in outstanding foreign securities in 1965 resulted in an outflow of \$42 million or approximately the same amount as in 1964. This was almost entirely attributable to dealings in United States securities with increased net purchases of equities at \$60 million being partially offset by net sales of \$18 million of bonds.

After accounting for retirements non-residents purchased a net \$577 million of new and outstanding Canadian issues, or the equivalent of 26 per cent of the net new supply of these securities - this compares with 25 per cent in 1964. On balance, non-residents acquired about the same proportion of the net new supply of provincial and corporate securities in 1965 as in 1964. Their net acquisitions of municipal bonds, however, formed an appreciably smaller proportion of the net new supply. For the first time since 1957 there was a net decrease in the supply of Government of Canada direct and guaranteed issues.

A more detailed review of international security movements in 1965 will be found in the December issue of "Sales and Purchases of Securities Between Canada and Other Countries" (DBS Catalogue No. 67-002) which also contains information relating to Canada's international short-term money market transactions, ownership of net Canadian long-term funded debt, and United States "Income Accumulating Funds".

The exceptionally high volume of offerings made to non-residents in 1965 reflected the continued buoyancy of the Canadian economy. The 1965 total offerings of \$1,326 million to United States residents is the highest figure recorded for any year since statistics of offerings have been compiled, and easily exceeds the previous high of \$983 million reached in 1964. It should be noted, however, that a proportion of the new Canadian issues placed with United States underwriters is frequently resold to residents of other foreign countries. In contrast to 1964 and 1963, offerings of new Canadian issues during 1965 were fairly evenly distributed between the four quarters. The pattern of offerings in the two previous years was affected by the introduction in 1963 of the Interest Equalization Tax in the United States and its promulgation (with an exemption for Canadian new issues) in 1964.

Other Capital Flows in Long-term Forms

Canadian Government non-military assistance abroad in 1965 took the form largely of payments of the regular assessments by international organizations of which Canada is a member, official contributions, intergovernmental loans, subscriptions to the capital of international investment agencies and the extension or guarantee of export credits. Assessments and contributions both form a part of Canada's payments on current account, while other transactions, to the extent to which they give rise to claims on non-residents are mainly reflected as an outflow of capital in long-term forms.

Intergovernmental loans extended by Canada during 1965, mainly in the fourth quarter, totalled slightly more than \$1 million. Practically the whole of this amount was extended under the new development or "soft" loan program which complements the existing structure of Canada's foreign aid program. There are loans administered by the External Aid Office which can be for a period as long as 50 years. Normally there are 10 years of grace before the first repayment becomes due and no interest except for an annual "service charge" of 0.75 per cent. Soft loans must be spent on Canadian goods and services and are designed to help finance projects for which commercial financing is unavailable. The program was initiated in November 1964 with the first amounts being disbursed in 1965. Total commitments earmarked for specific projects under this development loan program up to the end of 1965 amounted to almost \$100 million - about 95 per cent to Commonwealth countries with the remainder going to Latin American countries. In general, loans to Commonwealth countries have been negotiated on an intergovernmental basis while those to Latin America are handled through the Inter-American Development Bank.

In the final quarter of the year Canada increased its subscription to the International Development Association by \$15 million. This institution was established to assist in economic development in developing countries whose ability to make good use of capital exceeds their capacity to service loans extended on conventional terms. To date Canada has paid into the Association about \$56 million. Not all of these funds have yet been used by the Association and the offsetting liability appears mainly in the item for Government of Canada demand liabilities.

During the year Canada received repayments aggregating \$10 million on intergovernmental loans extended earlier, some \$1 million more than in the previous year, but \$15 million less than in 1963. In both 1964 and 1965 the United Kingdom availed itself of the waiver provisions applicable to the Canadian loan of 1946. If these repayments had been made, total receipts would have been almost \$19 million greater in each year. Most of the repayments in 1965 were from India and Belgium as the amounts which should have fallen due in 1965 from France and the Netherlands were prepaid in 1962. In addition to the repayments of principal there were receipts of \$7 million on account of interest in 1965, which were also affected by the application of the waiver arrangements with the United Kingdom. The receipts form a part of the item in the current account covering Canada's receipts of interest and dividends.

The first annual maturity of the medium-term non-marketable United States Government securities acquired by the Canadian Government in connection with the Columbia River Treaty arrangements occurred in November and resulted in an inflow of \$32 million expressed in Canadian funds. Holdings of these securities stood at U.S. \$173.9 million at the end of 1965.

The remaining capital movements in long-term forms in 1965 led to a net outflow of \$196 million in contrast to a small inflow of \$3 million in the previous year. As can be seen from the accompanying statement there have been large net outflows for some years arising from loans and advances under Government programs (excluding the development loan program) related to the financing of Canadian exports - including both agricultural products, especially to the Sino-Soviet bloc, and a wide range of capital equipment to developing countries particularly those in Latin America, and the Commonwealth. Non-resident holdings of special types of long-term finance company debt not included with direct investment or the security data decreased by \$3 million in 1965 while all other types of long-term capital transactions which include bank and other long-term loans, mortgage investments and movements of insurance funds resulted in an outflow of \$8 million.

Capital Movements in Short-Term Forms

Capital movements in short-term forms (apart from changes in official holdings of gold, foreign exchange and Canada's balance with the International Monetary Fund) led to a net capital inflow of \$685 million in 1965, a swing of almost \$750 million from the outflow of \$57 million recorded in the previous year.

Detail of Long-term Capital Transactions n.i.e.

Item D13

Year and Quarter	Export Credits	Finance Companies	Other	Total
	(1)	(2)		
	millions of dollars			
1962	- 73	14	- 57	- 116
1963	- 72	11	75	14
1964	- 164	5	162	3
1965	- 185	- 3	- 8	- 196
1964 I Q ...	- 31	5	2	- 24
II Q ...	- 52	14	26	- 12
III Q ...	- 46	- 18	98	34
IV Q ...	- 35	4	36	5
1965 I Q ...	- 43	- 1	33	- 11
II Q ...	- 60	- 6	- 19	- 85
III Q ...	- 53	4	- 17	- 66
IV Q ...	- 29	-	- 5	- 34

- (1) Export credits from Canada directly or indirectly at risk of the Government of Canada.
 (2) Finance company borrowing not included in items D1, 3, 4, 5, 17.3 or 17.4.

Canadian dollar deposits of non-residents in all these main geographic areas rose in total by \$30 million over the year with increases of \$6 million for the United States, \$16 million for the United Kingdom and \$8 million for other countries. At the year-end deposit liabilities to non-residents aggregated about \$570 million with residents of the United States, the United Kingdom and other countries holding some \$350 million, \$70 million and \$150 million, respectively.

Government of Canada demand liabilities payable to non-residents increased by \$2 million in 1965. The amount outstanding was somewhat more than \$28 million, mainly in the form of interest-free demand notes issued to international investment agencies.

Holdings by non-residents of Canadian treasury bills increased by \$12 million during 1965. The volume of transactions was, however, about one-third lower than in 1964 and less than half the 1963 total. International investment agencies continued to be the main non-resident investors in these instruments while other holders appear to be small and scattered.

Composition of "Other Capital Movements"
 (A minus sign indicates an outflow of capital from Canada)

	Year		1964	1965			
	1964	1965	IV Q	I Q	II Q	III Q	IV Q
	millions of dollars						
17.1 Bank balances and other short-term funds abroad (excluding official reserves)	- 526	+ 136	- 385	+ 170	+ 140	- 73	- 101
17.2 Canadian commercial paper	- 11	+ 11	- 1	-	+ 7	+ 4	-
17.3 Canadian finance paper	+ 196	- 179	- 17	- 38	- 7	- 65	- 69
17.4 Canadian finance company obligations, n.i.e.	+ 52	+ 205	+ 37	+ 25	+ 99	+ 89	- 8
17.5 All other transactions(1)	+ 220	+ 468	+ 177	- 13	+ 90	+ 73	+ 318
Total (Item D 17)	- 69	+ 641	- 189	+ 144	+ 329	+ 28	+ 140

- (1) Includes changes in loans and accounts receivable and payable, and also balancing item representing difference between direct measurements of current and capital accounts.

The largest volume of transactions in Canadian money market instruments in 1965 continued to be in Canadian finance paper. International transactions aggregated almost \$1,850 million. There was a sharp reversal of \$375 million in the direction of net capital flows, however, from an inflow of \$196 million in 1964 to an outflow of \$179 million in 1965. Outflows to non-residents were evident throughout the year being especially heavy in the second half. The accompanying statement shows the pattern since December 1962 of short-term paper borrowing by Canadian finance companies both from residents of the United States and from all other countries. After reaching a peak in September 1964 United States holdings have declined steadily. In contrast to the last three quarters of 1965 other non-residents became significant holders of these instruments, accounting for one-sixth of all non-resident holdings at the end of 1965. At December 1965 the \$300 million of non-resident holdings accounted for just over one-third of the total short-term paper issued by Canadian finance companies. The \$478 million held at December 1964 represented over two-fifths of the larger amount outstanding at that time.

Holdings by Non-Residents of Short-Term Canadian Finance Paper

	Residents of the United States	Residents of all other foreign countries	All non-residents
	millions of dollars		
31 December 1962	188	1	189
31 March 1963	209	-	209
30 June 1963	211	-	211
30 September 1963	233	-	233
31 December 1963	281	1	282
31 March 1964	387	1	388
30 June 1964	490	1	491
30 September 1964	493	2	495
31 December 1964	476	2	478
31 March 1965	436	4	440
30 June 1965	409	24	433
30 September 1965	325	43	368
31 December 1965	252	48	300

Transactions in other finance company obligations of a short-term nature (which include borrowings from foreign banks and advances from parent companies) led on balance to an inflow from non-residents of \$205 million, almost four times the 1964 inflow. An important factor in this increase was the reorganization of the financial structure of a finance company following its acquisition in 1965 by new interests in the United States. In addition there are, of course, other finance company transactions not identified separately which are included with capital movements in long-term forms, notably in new issues and retirements of Canadian securities. All in all, the international borrowing of these companies led to net inflows of about \$20 million, \$40 million and \$35 million successively in the first three quarters and to an outflow of approximately \$10 million in the last quarter of 1965. International transactions in Canadian commercial paper (including provincial guaranteed paper and bankers' acceptances) led to a net capital inflow of \$11 million in 1965 following an outflow of a like amount in the previous year. The gross volume of international transactions for these instruments was more than halved from the 1964 total, with the decline being concentrated in the paper of manufacturing and commercial enterprises as the volume of transactions in both provincial guaranteed paper and bankers' acceptances developed and expanded rapidly in the latter part of the year.

The existence of short-term interest rate differentials between the major financial centres of the world is, of course, a primary factor influencing international flows of short-term capital. Instruments negotiated in this money market vary as to term, currency, credit risk, etc., so do the character, requirements and relationships of lenders and borrowers. When considering these capital flows a wide variety of interest differentials could be appropriate; treasury bill yields are one such gauge for which published data are readily available. However, as previously noted the volume of international transactions in treasury bills especially between Canada and the United States has declined in importance in recent years so that while the trends shown in treasury bill yields probably apply generally to other interest rates, these rates are not necessarily those at which the bulk of short-term funds move.

Yields on 3 month Canadian treasury bills rose substantially in 1965 closing at the year-end 74 basis points higher than the year's opening tender rate of 3.80 per cent on January 7. This compares with a rise of only 8 basis points in 1964. Yields fell to a low of 3.61 per cent in April and then climbed more or less steadily to the beginning of December when they jumped significantly in sympathy with the bank rate increase to reach a high of 4.56 per cent towards the end of December. United States treasury bill yields also recorded a substantial increase in 1965 and finished the year 68 basis points higher than the opening rate of 3.77 per cent. Yields on Canadian and United States treasury bills as quoted in their respective countries are not strictly comparable mainly because Canadian bills are quoted on a true yield basis while United States bills are quoted as a yield on the par value. (1) If Canadian yields are adjusted to the United States quotation basis, yield differentials with forward exchange cover during 1965 were substantial ranging for month-end observations from a 52 basis points advantage for Canadian bills in June to a 71 basis points spread in favour of its United

(1) For an explanation of the difference see the Technical Note pp. 1253-4 of the United States Federal Reserve Bulletin of October 1964.

States counterpart by the end of the year. Protected interest rate differentials are theoretically the stimulus to movements of arbitrage capital which continues flowing until rising costs of exchange protection in the forward market and falling yields eliminate any further inducement. In practice, however, when account is taken of the costs attendant on transactions and other factors such differentials are often too narrow to motivate movements of arbitrage capital. At times investors choose to accept the risk of exchange rate fluctuation or may have requirements which do not involve repatriation of matured bills into domestic currency.

While yields on treasury bills provide some indication of what has been happening to short-term interest rates, the bulk of non-resident short-term funds are invested in other money market investments, particularly Canadian finance company paper. Yields on these instruments are, of course, normally above treasury bill yields. In 1965 events which had a particularly important effect on the availability and price of short-term funds moving into treasury bills, commercial and finance company paper were certain of the measures taken by the United States in February to improve its balance of payments position, the default of a finance company in June and the December rise in the bank rate. As a result, interest rates paid by the large finance companies which started the year at perhaps 4 1/4 per cent for 3 to 6 month paper increased steadily throughout the year to about 6 per cent at the end of December.

A reduction by Canadian residents of their holdings of bank balances and other short-term funds abroad produced a net capital inflow of \$136 million - a swing of two-thirds of a billion dollars from the outflow of \$526 million in 1964. Holdings were reduced in the first two quarters of 1965 and increased in the second half of the year. The reduction was more than accounted for by the decrease in "swapped" foreign currency deposit liabilities of the Canadian chartered banks to Canadian residents for which the holders had obtained foreign exchange protection. Comment on the foreign currency operations of the Canadian banks has been included in a preceding section of this report.

All other transactions in short-term forms are estimated to have risen from \$220 million in 1964 to a record level of \$468 million in 1965. Increases in foreign currency banking loans to Canadian residents were the most important element in this total and came mainly from the foreign currency operations of Canadian banks. There were substantial movements in intercompany accounts, with outflows in the first two quarters and inflows in the last two. Other components of this group of capital movements include changes in other loans and accounts receivable and payable, and the figure also includes the balancing item representing the difference between direct measurements of the current and capital accounts.

About two-thirds of the net movement in 1965 occurred in the final quarter of the year when imports rose sharply. Readers may wish to bear in mind that while many exports, e.g. wheat, are either on a virtually cash basis, or are formally covered by long-term credits explicitly accounted for in other items of capital flows, many imports involve temporary credit. Even without any change in payment terms, or practices, shifts in the volume or composition of commodity trade will give rise to concomitant capital flows.

Official Holdings of Gold and Foreign Exchange and Canada's Balance with the IMF

While official holdings of gold and foreign exchange fell slightly over the year, the balance with the International Monetary Fund rose, and Canada's net international monetary assets in these forms increased on balance by \$157 million. The seasonally strong balance of payments position in the third quarter led to an increase of \$226 million. In the second and fourth quarters the net changes were insignificant, and in the first quarter these external monetary assets were drawn down by \$72 million.

The decrease in official holdings of gold and United States dollars during the year amounted to \$11 million, expressed in Canadian funds, while corresponding holdings of sterling were little unchanged. Under arrangements between the Bank of Canada and the Bank of England credit facilities had been made available to the United Kingdom in the latter part of 1964 through the deposit with the Bank of England of the United States dollar equivalent of \$54 million of Canada's official holding of United States dollars; these transactions were reversed by mid-1965 when the United Kingdom used drawings from the International Monetary Fund to repay central bank assistance.

Official holdings of gold and United States funds, expressed in terms of United States dollars, amounted to \$2,665 million at December 31, 1965. This was \$9 million lower than at the beginning of the year. Month-end holdings ranged between \$2,480 million at the end of June and \$2,681 million at the end of November. Official holdings of sterling continued to be limited to working balances.

Canada's so-called "gold tranche position" with the International Monetary Fund together with loans made under the General Arrangements to Borrow, amounted to \$353.4 million expressed in United States dollars, at the end of the year, having increased by \$155.9 million during the year. The total represents the net resources made available by Canada to the IMF, and may be drawn by Canada virtually automatically on statement of balance of payments need, although Canada would then be under an obligation to restore the figure to 25 per cent of its quota which is currently \$550 million, i.e. to \$137.5 million.

Contributing to the change in Canada's balance with the International Monetary Fund were drawings of Canadian dollars by other countries aggregating the equivalent of \$290.5 million in United States funds, and repurchases by them with Canadian currency of the equivalent of \$107.1 million of their own currencies. During the year the Fund also acquired Canadian dollars equivalent to \$27.5 million and \$35 million from gold sales to Canada and borrowings from Canada under the General Arrangements to Borrow, respectively.

These figures indicate a much greater volume of transactions with the International Monetary Fund than in any earlier year, although a significant part represented technical transactions of an offsetting nature. The increase in Canada's net balance with the Fund of \$155.9 million expressed in United States dollars was however almost \$100 million below the figure for 1964 when Canada was still restoring the balance eliminated by the Fund's assistance to Canada in the exchange crisis of 1962.

All in all there were 47 transactions in Canadian dollars with the International Monetary Fund in 1965, which included drawings by 8 countries and repurchases by 15 amounting to a total of 13 drawings and 32 repurchases. There were transactions in eleven of the twelve months. In 1964 there had been 13 transactions including repurchases by Canada in 5 currencies, and drawings of Canadian dollars by 3 countries.

The largest transaction in 1965 occurred in May when there was a substantial drawing on the resources of the International Monetary Fund by the United Kingdom. This included the United States dollar equivalent of \$107.5 million in Canadian dollars. The IMF replenished its holdings of Canadian dollars by the sale to Canada of \$27.5 million of gold and by borrowing \$35 million from Canada under the General Arrangements to Borrow. The net effect was to increase Canada's balance with the International Monetary Fund by \$80 million in terms of United States dollars.

During the year the United States purchased from the Fund Canadian dollars aggregating in United States dollars \$85 million. These drawings were of a technical nature and the Canadian dollars acquired by the United States were sold by it for United States dollars to other members wishing to make repayments to the Fund. Since early in 1964 the Fund's holdings of United States dollars have exceeded 75 per cent of that country's quota in the Fund, and under the Articles of Agreement other members have been precluded from making repayments to the Fund in United States dollars. Insofar as Canada is concerned the effect of these technical transactions is washed out; repayments to the Fund by other countries offsetting the drawings by the United States.

Canada's International Investment Position

This report includes Tables V to X which will be a part of the next annual report on Canada's balance of international payments and international investment position. They provide statistics to the end of 1963 for the Canadian balance of international indebtedness* together with details of Canadian long-term investments abroad up to the end of 1964 and of foreign long-term investments in Canada for 1963. The principal factors in changes of both external assets and liabilities are usually the flows of international capital and the accrual of earnings. Contributing significantly to the growth of Canada's external assets during both 1961 and 1962 was the greater value in terms of Canadian dollars of assets denominated in foreign currency.

Canada's gross external assets (including official holdings of gold) totalled \$11.2 billion at the end of 1963, an increase of \$0.9 billion during the year. The total includes \$6.7 billion in Canadian long-term investments abroad. Canada's official holdings of gold and foreign exchange together with Canada's net position in the International Monetary Fund accounted for a further \$2.7 billion.

Canada's gross external liabilities are shown to have risen to \$30.5 billion at the end of 1963 of which \$26.2 billion represented the book value of foreign long-term investments in Canada. The overall rise of \$1.7 billion in 1963 was of the same general order of magnitude as in the earlier years of the sixties.

* The term includes equity investments as well as contractual borrowings and is used in the broad sense generally accepted in balance of payments terminology.

United States Dollar in Canada

Exchange holdings and IMF Balance

								Official holdings of gold and United States dollars	Net balance with Inter- national Monetary Fund
Period		High	Low	Close	Noon average	End of period			
Canadian cents						millions of United States dollars			
1964	I Q	108.09	107.94	108.06	108.02	1964	I Q	2,466	20
							II Q	2,534	25
	II Q	108.25	108.03	108.13	108.09		III Q	2,625	80
							IV Q	2,674	197
	III Q	108.22	107.50	107.50	107.87	1965	I Q	2,554	240
	IV Q	107.63	107.25	107.38	107.46		II Q	2,480	327
							III Q	2,614	403
							IV Q	2,665	353
1965	I Q	108.44	107.31	107.97	107.71				
	II Q	108.38	107.72	108.34	108.04		October	2,644	387
	III Q	108.50	107.53	107.59	107.94		November	2,681	363
	IV Q	107.78	107.38	107.50	107.53		December	2,665	353

Note: The table of exchange holdings does not include holdings of the Government of Canada at the end of 1965 of \$174 million of medium-term non-marketable securities of the United States Government acquired in 1964 in connection with the Columbia River Treaty arrangements.

Canada's Accounts with the International Monetary Fund

Period	Canadian assets			Canadian liabilities = IMF holdings of Canadian dollars					Canada's net balance with IMF (1)
	Transactions		Total assets	Transactions					
	Sub- crip- tion (Quota)	Loans (GAB)		Sub- crip- tions and loans	Net drawings of foreign currencies by Canada	Net drawings (-) of Cana- dian dollars by other countries	Sales of Canadian dollars to IMF for gold	Total liabi- lities	
expressed in millions of United States dollars									
1947-61	550.0		550.0	412.5		- 99.6	25.0	337.9	212.1
1962			550.0		300.0	50.3		688.2	- 138.2
1963			550.0		- 79.7			608.5	- 58.5
1964		15.0	565.0	15.0	- 166.0	- 99.0	9.0	367.5	197.5
1965		35.0	600.0	35.0		- 183.4	27.5	246.6	353.4
1965:									
I Q			565.0			- 42.5		325.0	240.0
II Q		35.0	600.0	35.0		- 114.0	27.5	273.5	326.5
III Q			600.0			- 76.0		197.5	402.5
IV Q			600.0			49.1		246.6	353.4

(1) This is a cumulative measure of the net resources provided by Canada to the IMF. The Canadian dollar equivalent of the change appears as item H2 in the balance of payments statement. Canada's net balance with the IMF when positive represents the so-called "gold tranche position" plus borrowing under the General Arrangements to Borrow (GAB). This may be drawn by Canada virtually automatically on statement of balance of payments need, but Canada would then be under an obligation to restore its net balance to 25 per cent of the Quota.

Note: The statement is expressed in terms of United States dollar equivalents in accordance with the IMF practice. Since members are obligated to maintain the gold value of the IMF's holdings of their currencies, there have been adjustment payments between the IMF and Canada in Canadian dollars from time to time arising from changes in the exchange rate. These transactions are not reflected above because the series are shown in United States dollar equivalents, and do not appear in the balance of payments statements because only the change in Canada's net asset is shown. The adjustment transactions affect the Public Accounts of Canada.

Canada's net external liabilities at the end of 1963 amounted to \$19.3 billion, having risen from \$6.1 billion a decade earlier. By the end of 1965 Canada's gross external liabilities were approaching \$34 billion, assets were some \$12 1/2 billion, and the net balance of indebtedness was about \$21 1/2 billion.

The book value of foreign long-term investments in Canada continued to rise during 1963 increasing by somewhat more than 5 per cent from \$24,889 million at the end of 1962 to \$26,203 million a year later. This rate of increase has been showing a tendency to moderate since 1959.

More than half the increase took the form of direct investment in Canada which rose by \$774 million. The largest part of this amount, about 47 per cent, was invested in manufacturing, with petroleum and natural gas accounting for a further 28 per cent and finance and mining and smelting following. Other long-term investments in Canada rose by \$536 million, the largest part of which was accounted for by net sales to non-residents of bonds of all levels of government. There were relatively small increases in other portfolio and miscellaneous investments, with reductions in outstanding investment in a number of the industrial sectors.

United States-owned long-term investments in Canada accounted for 78 per cent of the total owned by all non-residents at the end of 1963. This was an increase from 77 per cent a year earlier. At the end of 1952 and through 1954 United States-owned long-term investments in Canada represented 77 per cent of the total, then subsided relatively with the greater growth in investments from overseas. The 1963 figure represented a new level of concentration. While direct investments owned by residents of the United Kingdom and by residents of other overseas countries both rose, there was a decline in the total of portfolio investments in which repurchases from the United Kingdom of railway stocks and repatriation of utility stocks played an important part.

Data for a number of types of Canadian long-term investments abroad are published in Table VII. Direct investments abroad by Canadian companies rose from \$3,145 million at the end of 1963 to \$3,353 million at the end of 1964. This increase, although large, was smaller than the record figure of over \$300 million recorded in 1963. However, the relative rate of increase in 1962 had been exceeded in the post-war period during the early fifties at a time when the total value of these investments was much smaller. (Some part of the increase in 1963 may arise from lagging effects on the data of the greater value in Canadian dollar terms of assets denominated in foreign currencies.) There were significant increases in Canadian direct investments abroad in 1964 in each of the areas covered by Table VII. Canadian companies engaged in industrial and commercial activity accounted for the predominant part of the growth.

The figures are affected not only by international flows of capital, retained earnings, and the exchange revaluation effects already referred to, but also by some shifts in the character of investments. Changes in the distribution of holdings of public companies may cause their statistical classification to shift between direct and portfolio investment abroad.

Non-residents have substantial equity in Canadian assets abroad through their participation as owners in Canadian parent companies. About \$1.4 billion of the Canadian assets abroad at the end of 1963 were beneficially owned by non-residents. An entry of this magnitude is included as a liability in the statement of Canada's balance of international indebtedness.

Canadian portfolio investment in foreign securities totalled \$1,797 million at the end of 1963, having risen from \$1,723 million a year earlier. In 1963 Canadians were net sellers, on balance, of \$23 million of foreign securities but retained earnings accruing to Canadian shareholders more than offset the effects of these sales.

Most of the increase in portfolio holdings occurred in foreign equities which had a book value of \$1,522 million at the end of 1963. These included nearly \$1,200 million of United States stocks. As in the case of Canada's external liabilities the values attributed to these securities are the book values appearing in the accounts of the companies themselves. Market values would in each case be substantially higher.

TABLE V. The Canadian Balance of International Indebtedness, Selected Year Ends, 1926-63¹

Item	1926	1930	1939	1945	1949	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
billions of dollars															
Canadian liabilities:															
Direct investment VIII, X	1.8	2.4	2.3	2.7	3.6	6.8	7.7	8.9	10.1	10.9	11.9	12.9	13.7	14.7	15.4
Government and municipal bonds IX	1.4	1.7	1.7	1.7	1.8	2.1	1.9	2.1	2.3	2.6	3.1	3.3	3.4	3.7	4.2
Other portfolio investments VIII	2.5	3.2	2.6	2.4	2.3	3.2	3.2	3.7	4.1	4.4	4.6	4.6	4.7	4.7	4.7
Miscellaneous investments VIII	0.3	0.3	0.3	0.3	0.3	0.6	0.6	0.8	0.9	1.1	1.3	1.4	1.7	1.8	1.8
Foreign long-term investments in Canada VIII, IX	6.0	7.6	6.9	7.1	8.0	12.5	13.5	15.6	17.5	19.0	20.9	22.2	23.6	24.9	26.2
Equity of non-residents in Canadian assets abroad .....	..	..	0.2	0.2	0.3	0.6	0.7	0.8	0.8	0.9	1.0	1.1	1.2	1.3	1.4
Canadian dollar holdings of non-residents .....	..	..	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.6	0.6	0.6
Gross liabilities²	6.4	8.0	7.4	7.6	8.7	13.5	14.6	16.7	18.7	20.4	22.4	24.0	25.4	26.8	28.2
United States ²	3.5	4.9	4.5	5.4	6.4	10.3	11.1	12.6	14.1	15.5	17.0	18.0	19.3	20.6	22.0
United Kingdom ²	2.7	2.9	2.6	1.8	1.8	2.3	2.5	2.8	3.1	3.2	3.4	3.5	3.5	3.6	3.5
Other countries ^{2,3}	0.2	0.2	0.3	0.4	0.5	0.8	1.0	1.3	1.5	1.7	2.1	2.4	2.5	2.6	2.7
Short-term payables n.i.e. ⁴ .....	..	..	..	0.6	0.6	0.4	0.5	0.7	1.0	1.1	1.4	1.6	1.9	2.0	2.3
Gross liabilities	6.4²	8.0²	7.4²	8.2	9.3	13.9	15.1	17.5	19.6	21.5	23.8	25.6	27.3	28.8	30.5
Canadian assets:															
Direct investment VII	0.4	0.4	0.7	0.7	0.9	1.6	1.7	1.9	2.1	2.1	2.3	2.5	2.6	2.8	3.1
Portfolio investments VII	0.5	0.8	0.7	0.6	0.6	0.9	1.0	1.0	1.1	1.1	1.2	1.3	1.5	1.7	1.8
Government of Canada loans and advances VII	—	—	—	0.7	2.0	1.7	1.6	1.6	1.6	1.5	1.5	1.5	1.4	1.3	1.3
Government of Canada subscriptions to international investment agencies	—	—	—	—	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Miscellaneous investments ⁵	—	—	—	—	—	-0.1	-0.1	—	-0.1	-0.1	—	—	—	0.1	0.4
Canadian long-term investments abroad	0.9	1.3	1.4	2.0	3.6	4.3	4.4	4.5	4.7	4.8	5.0	5.3	5.7	6.2	6.7
Government of Canada holdings of gold and foreign exchange VI	—	—	0.5	1.7	1.2	1.9	1.9	1.9	1.8	1.9	1.8	1.8	2.2	2.7	2.8
Net IMF position	—	—	—	—	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	-0.1	-0.1
Other Canadian short-term holdings of exchange	6	6	—	0.1	0.1	0.5	0.4	0.6	0.9	1.0	1.0	1.2	1.1	1.0	1.3
Gross assets²	1.3	1.5	1.9	3.9	5.1	6.7	6.8	7.1	7.5	7.7	8.0	8.5	9.2	9.8	10.7
Government of Canada holdings of gold, foreign exchange and net IMF position	—	—	0.5	1.7	1.3	2.0	2.0	2.0	1.9	2.0	1.9	2.0	2.4	2.6	2.7
United States ^{2,7}	0.7	0.9	0.9	1.0	1.3	2.2	2.3	2.6	3.0	3.1	3.3	3.7	3.9	4.1	4.8 ^x
United Kingdom ^{2,7}	0.1	0.1	0.1	0.7	1.6	1.5	1.4	1.4	1.4	1.4	1.4	1.5	1.5	1.6	1.9 ^x
Other countries ^{2,3}	0.5	0.5	0.4	0.5	0.9	1.1	1.1	1.1	1.2	1.3	1.3	1.3	1.4	1.5	1.2 ^x
Short-term receivables n.i.e. ⁴ .....	..	..	..	0.1	0.2	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Gross assets	1.3²	1.5²	1.9²	4.0	5.3	6.9	7.1	7.5	7.9	8.2	8.5	9.0	9.7	10.3	11.2
Canadian net international indebtedness:															
Net liabilities	5.1²	6.5²	5.5²	4.2	4.0	7.0	8.0	10.0	11.8	13.3	15.3	16.6	17.6	18.5	19.3
Government of Canada holdings of gold, foreign exchange and net IMF position	—	—	-0.5	-1.7	-1.3	-2.0	-2.0	-2.0	-1.9	-2.0	-1.9	-2.0	-2.4	-2.6	-2.7
United States ^{2,7}	2.8	4.0	3.6	4.4	5.1	8.1	8.7	10.0	11.1	12.4	13.6	14.3	15.4	16.5	17.2 ^x
United Kingdom ^{2,7}	2.6	2.8	2.5	1.1	0.2	0.8	1.1	1.4	1.6	1.8	1.9	2.0	2.0	2.0	1.6 ^x
Other countries ^{2,3}	-0.3	-0.3	-0.1	-0.1	-0.4	-0.2	-0.1	0.2	0.3	0.4	0.8	1.1	1.1	1.1	1.4 ^x
Short-term n.i.e. ⁴ .....	..	..	..	0.4	0.4	0.1	0.2	0.3	0.6	0.6	1.0	1.1	1.4	1.6	1.8

¹ For 1933 and missing years after 1945 unrevised presentation see Tables II and III in "Canada's Short-term External Assets and Liabilities 1945-1957" (DBS Catalogue No. 67-504).

² Excludes short-term receivables and payables.

³ Includes international investment agencies.

⁴ Country distribution not available.

⁵ Includes reserve against inactive assets.

⁶ Net external assets of the Chartered Banks of Canada amounted to \$370 million in 1926 and \$180 million in 1930.

⁷ Excludes Government of Canada holdings of gold and foreign exchange.

Note: As figures are rounded, totals do not necessarily equal the sum of their component parts. Roman numerals refer to tables with further detail.

General note applicable to all statistics of foreign investments in Canada

Common and preference stocks are included at book (equity) values as shown in the balance sheets of the issuing companies, bonds and debentures are valued at par, liabilities in foreign currencies being converted into Canadian dollars at the original par of exchange.

Investments in Canadian companies have been classified according to principal activities in Canada.

Investments in Canada shown as owned by residents of the United States and the United Kingdom include some investments held for residents of other countries.

For more detailed explanations see "Canada's International Investment Position, 1926-1954".

TABLE VI. Canada's Official Holdings of Gold and United States Dollars,¹ 1953-64

At end of	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962 ²	1963 ²	1964 ²
millions of U.S. dollars												
March	1,845.3	1,827.2	1,871.5	1,871.4	1,923.6	1,867.7	1,888.3	1,856.1	1,934.9	1,709.4	2,600.1	2,465.5
June	1,750.1	1,863.3	1,930.4	1,899.5	1,941.8	1,921.4	1,934.2	1,773.9	1,985.2	1,808.7	2,691.6	2,533.9
September	1,787.3	1,898.6	1,936.7	1,903.5	1,889.9	1,888.2	1,938.3	1,813.0	1,924.3	2,444.6	2,568.3	2,624.5
December	1,818.5	1,942.6	1,900.8	1,936.2	1,828.3	1,939.1	1,869.2	1,829.2	2,055.8	2,539.4	2,595.0	2,674.3

¹ Gold, United States dollars and short-term securities of the United States Government held by the Exchange Fund Account and other Government accounts and net holdings of the Bank of Canada.

² Includes some funds representing special international financial assistance in the form of central bank swaps and/or net IMF drawings.

TABLE VII. Canadian Long-term Investments Abroad,¹ Selected Year Ends, 1926-64²

Location and year	Direct investment in branches subsidiaries and controlled companies					Portfolio investment in foreign securities			Total private long-term investments abroad	Government of Canada credits	Total
	Railways and utilities	Industrial and commercial	Mining and petroleum	Other concerns	Total direct investment	Stocks	Bonds	Total portfolio investment			
millions of dollars											
In all countries:											
1926	..	..	..	..	397	..	..	493	890	36	926
1930	..	..	..	..	443	..	..	789	1,232	31	1,263
1939	249	289	123	10	671*	511	208	719*	1,390	31	1,421
1945	239	337	138	6	720	454	167	621	1,341	707	2,048
1947	246	414	155	7	822	426	153	579	1,401	1,816	3,217
1949	276	553	91	6	926	477	161	638	1,564	2,000	3,564
1956	418	1,106	340	27	1,891	785	221	1,006	2,897	1,587	4,484
1957	425	1,198	410	40	2,073	811	257	1,068	3,141	1,560	4,701
1958	429	1,250	427	43	2,149	868	250	1,118	3,267	1,528	4,795
1959	457	1,343	417	78	2,295	934	249	1,183	3,478	1,495	4,973
1960	456	1,482	459	84	2,481	1,050	265	1,315	3,796	1,462	5,258
1961	504	1,566	446	112	2,628	1,195	276	1,471	4,099	1,424	5,523
1962	475*	1,769	463	114	2,821	1,445	278	1,723	4,544	1,301	5,845
1963	495	1,940	558	152	3,145	1,522	275	1,797	4,942	1,285	6,227
1964	489	2,084	562	218	3,353	..	..	..	..	1,267	..
In the United States:											
1939	211	176	21	4	412	380	121	501	913	—	913
1945	212	214	25	4	455	317	92	409	864	—	864
1947	217	272	37	5	531	283	83	366	897	—	897
1949	247	413	58	3	721	345	98	443	1,164	—	1,164
1956	378	804	190	22	1,394	569	84	653	2,047	—	2,047
1957	380	833	206	32	1,451	593	118	711	2,162	—	2,162
1958	379	833	197	31	1,440	659	111	770	2,210	—	2,210
1959	382	862	191	63	1,498	734	111	845	2,343	—	2,343
1960	374	971	223	64	1,632	827	120	947	2,579	—	2,579
1961	420	1,018	240	78	1,756	938	119	1,057	2,813	—	2,813
1962	431	1,092	225	75	1,823	1,124	116	1,240	3,063	—	3,063
1963	438	1,141	309	109	1,997	1,197	111	1,308	3,305	—	3,305
1964	424	1,190	297	146	2,057	..	..	..	..	—	..
In the United Kingdom:											
1939	—	53	—	6	59	22	21	43	102	—	102
1945	—	53	—	1	54	26	27	53	107	561	668
1947	—	64	—	—	64	26	26	52	116	1,331	1,447
1949	—	58	—	1	59	21	19	40	99	1,434	1,533
1956	3	135	—	1	139	30	16	46	185	1,179 ³	1,364
1957	3	168	—	1	172	33	15	48	220	1,171 ³	1,391
1958	3	196	—	1	200	27	14	41	241	1,125 ³	1,366
1959	10	224	—	1	235	25	12	37	272	1,108 ³	1,380
1960	14	240	—	3	257	26	16	42	299	1,092 ³	1,391
1961	12	271	—	5	288	45	16	61	349	1,074 ³	1,423
1962	9*	327	—	8	344	51	16	67	411	1,057 ³	1,468
1963	6	371	—	8	385	53	16	69	454	1,039 ³	1,493
1964	8	397	1	16	422	..	..	..	..	1,059 ³	..
In other Commonwealth countries: ⁴											
1939	7	30	17	—	54	7	15	22	76	—	76
1945	7	34	28	—	69	7	12	19	88	—	88
1947	8	47	30	—	85	7	11	18	103	—	103
1949	6	51	19	—	76	6	8	14	90	—	90
1956	8	85	98	—	191	7	21	28	219	—	219
1957	8	93	131	3	235	7	21	28	263	—	263
1958	7	102	150	7	266	8	21	29	295	34	329
1959	8	120	153	10	291	8	19	27	318	35	353
1960	10	121	156	12	299	10	18	28	327	35	362
1961	15	95	145	24	279	11	30	41	320	30	350
1962	16	132	162	26	336	12	31	43	379	25	404
1963	17	154	165	30	366	13	29	42	408	29	437
1964	21	186	169	50	426	..	..	..	..	25	..
In other foreign countries:											
1939	31	30	85	—	146	102	51	153	299	31	330
1945	20	36	85	1	142	104	36	140	282	146	428
1947	21	31	88	2	142	110	33	143	285	485	770
1949	23	31	14	2	70	105	36	141	211	566	777
1956	29	82	52	4	167	179	100	279	446	408	854
1957	34	104	73	4	215	178	103	281	496	389	885
1958	40	119	80	4	243	174	104	278	521	369	890
1959	57	137	73	4	271	167	107	274	545	352	897
1960	58	150	80	5	293	187	111	298	591	335	926
1961	57	182	61	5	305	201	111	312	617	320	937
1962	19*	218	76	5	318	258	115	373	691	219 ⁵	910
1963	34	274	84	5	397	259	119	378	775	217 ⁵	992
1964	36	311	95	6	448	..	..	..	..	183 ⁵	..

¹ Figures exclude investments of insurance companies and banks (held mainly against liabilities to non-residents), subscriptions to international investment agencies (Table V), and miscellaneous investments (Table V). Figures include the equity of non-residents in assets abroad of Canadian companies (Table V).

² For years 1951-55 see Table VII, "The Canadian Balance of International Payments, 1961 and 1962, and International Investment Position".

³ Includes deferred interest amounting to \$22 million in 1956, to \$44 million in 1957 through 1963, and to \$64 million in 1964.

⁴ Includes investments in Newfoundland prior to 1949.

⁵ Includes \$7 million United Nations in 1962 and 1963, and \$6 million in 1964.

TABLE VIII. Foreign Capital Invested in Canada, Selected Year Ends, 1945 - 63

Classification by type of assets and nature of national ownership

Long-term investments in Canada	A. Owned by all non-residents								B. Owned in United States							
	1945	1957	1958	1959	1960	1961	1962	1963	1945	1957	1958	1959	1960	1961	1962	1963
	millions of dollars															
By type of assets																
Bonds and debentures:																
Government and municipal ¹	1,662	2,326	2,621	3,112	3,269	3,438	3,737	4,207	1,450	2,061	2,344	2,764	2,903	3,049	3,387	3,869
Railways	843	480	484	492	499	512	475	483	495	166	165	159	152	174	143	151
Other corporations	561	1,963	2,181	2,241	2,309	2,400	2,672	2,860	414	1,666	1,863	1,924	1,980	2,124	2,402	2,585
Sub-totals	3,066	4,769	5,286	5,845	6,077	6,350	6,884	7,550	2,359	3,893	4,372	4,847	5,035	5,347	5,932	6,605
Capital stock of Canadian companies	3,194	8,875	9,352	9,916	10,480	10,865	11,631	12,018	2,088	6,328	6,679	7,117	7,472	7,894	8,460	8,916
Other corporation assets ²	548	2,686	2,967	3,490	3,965	4,429	4,457	4,681	413	2,299	2,512	2,954	3,294	3,654	3,727	3,940
Income accumulating investment funds	—	255	342	321	264	266	164	123	—	255	342	321	264	266	164	123
Miscellaneous investments	284	879	1,063 ^x	1,285	1,428	1,696	1,753	1,831	130	489	536	587	653	840	872	904
Total investments	7,092	17,464	19,010	20,857	22,214	23,606	24,889	26,203	4,990	13,264	14,441	15,826	16,718	18,001	19,155	20,488
By nature of national ownership																
I. Direct investments (controlled in country of ownership):																
Bonds and debentures:																
Railways	46	32	32	28	14	13	4	4	38	28	28	24	10	10	1	1
Other corporations	281	1,075	1,135	1,182	1,211	1,346	1,565	1,608	254	1,004	1,058	1,106	1,116	1,255	1,486	1,523
Sub-totals	327	1,107	1,167	1,210	1,225	1,359	1,569	1,612	292	1,032	1,086	1,130	1,126	1,265	1,487	1,524
Capital stock of Canadian companies	1,860	6,398	6,826	7,324	7,839	8,190	8,983	9,529	1,613	5,196	5,515	5,922	6,263 ^x	6,579	7,093	7,612
Other corporation assets ²	526	2,624	2,887	3,372	3,808	4,188	4,108	4,293	399	2,244	2,444	2,860	3,160 ^x	3,440	3,426	3,618
Total direct investments	2,713	10,129	10,880	11,906	12,872	13,737	14,660	15,434	2,304	8,472	9,045	9,912	10,549	11,284	12,006	12,754
II. Government and municipal bonds¹	1,662	2,326	2,621	3,112	3,269	3,438	3,737	4,207	1,450	2,061	2,344	2,764	2,903	3,049	3,387	3,869
III. Other portfolio investments (not controlled in country of ownership):																
Bonds and debentures:																
Railways:																
Controlled in Canada	795	447	451	462	483	497	470	478	457	138	137	134	141	163	141	149
Controlled in other countries	2	1	1	2	2	2	1	1	—	—	—	1	1	1	1	1
Other corporations:																
Controlled in Canada	220	618	756	773	809	791	836	979	158	555	682	696	749	771	815	954
Controlled in other countries	60	270	290	286	289	263	271	273	2	107	123	122	115	98	101	108
Sub-totals	1,077	1,336	1,498	1,523	1,583	1,553	1,578	1,731	617	800	942	953	1,006	1,033	1,058	1,212
Capital stock of Canadian companies:																
Companies controlled in Canada	1,249	2,228	2,274	2,322	2,340	2,395	2,351	2,198	462	1,058	1,081	1,100	1,104	1,215	1,259	1,207
Companies controlled in other countries	85	249	252	270	301	280	297	291	13	74	83	95	105	100	108	97
Other corporation assets: ²																
Companies controlled in Canada	16	46	59	93	129	197	297	327	13	43	53	79	117	187	263	284
Companies controlled in other countries	6	16	21	25	28	44	52	61	1	12	15	15	17	27	38	38
Income accumulating investment funds	—	255	342	321	264	266	164	123	—	255	342	321	264	266	164	123
Total other portfolio investments	2,433	4,130	4,446	4,554	4,645	4,735	4,739	4,731	1,106	2,242	2,516	2,563	2,613	2,828	2,890	2,961
IV. Miscellaneous investments:																
Real estate, mortgages, assets administered for non-residents, private investment companies, etc.	284	879	1,063 ^x	1,285	1,428	1,696	1,753	1,831	130	489	536	587	653	840	872	904
SUMMARY																
I. Direct investments	2,713	10,129	10,880	11,906	12,872	13,737	14,660	15,434	2,304	8,472	9,045	9,912	10,549	11,284	12,006	12,754
II. Government and municipal bonds	1,662	2,326	2,621	3,112	3,269	3,438	3,737	4,207	1,450	2,061	2,344	2,764	2,903	3,049	3,387	3,869
III. Other portfolio investments	2,433	4,130	4,446	4,554	4,645	4,735	4,739	4,731	1,106	2,242	2,516	2,563	2,613	2,828	2,890	2,961
IV. Miscellaneous investments	284	879	1,063 ^x	1,285	1,428	1,696	1,753	1,831	130	489	536	587	653	840	872	904
Total investments	7,092	17,464	19,010	20,857	22,214	23,606	24,889	26,203	4,990	13,264	14,441	15,826	16,718	18,001	19,155	20,488

See footnotes at end of table.

TABLE VIII. Foreign Capital Invested in Canada, Selected Year Ends 1945-63 — Concluded
Classification by type of assets and nature of national ownership

Long-term investments in Canada	C. Owned in United Kingdom								D. Owned in all other countries							
	1945	1957	1958	1959	1960	1961	1962	1963	1945	1957	1958	1959	1960	1961	1962	1963
	millions of dollars															
By type of assets																
Bonds and debentures:																
Government and municipal ¹	157	145	145	141	127	147	137	121	55	120	132	207	239	242	213	217
Railways	316	290	292	291	290	288	284	259	32	24	27	42	57	50	68	73
Other corporations	116	200	207	206	214	185	178	178	31	97	111	111	115	91	92	97
Sub-totals	589	635	644	638	631	620	579	558	118	241	270	360	411	383	373	387
Capital stock of Canadian companies	973	1,835	1,934	1,983	2,078	2,023	2,083	2,040	133	712	739	816	930	948	1,088	1,062
Other corporation assets ²	103	270	312	378	439	515	509	512	32	117	143	158	232	260	221	229
Miscellaneous investments	85	177	198	200	211	223	228	221	69	213	329 ^x	498	564	633	653	706
Total investments	1,750	2,917	3,088	3,199	3,359	3,381	3,399	3,331	352	1,283	1,481	1,832	2,137	2,224	2,335	2,384
By nature of national ownership																
I. Direct investments (controlled in country of ownership):																
Bonds and debentures:																
Railways	8	4	4	4	4	3	3	3	—	—	—	—	—	—	—	—
Other corporations	13	42	45	39	46	38	24	25	14	29	32	37	49	53	55	60
Sub-totals	21	46	49	43	50	41	27	28	14	29	32	37	49	53	55	60
Capital stock of Canadian companies	226	850	938	972	1,057 ^x	1,072	1,209	1,244	21	352	373	430	519 ^x	539	681	673
Other corporation assets ²	101	267	309	369	428 ^x	500	470	465	26	113	134	143	220 ^x	248	212	210
Total direct investments	348	1,163	1,296	1,384	1,535	1,613	1,706	1,737	61	494	539	610	788	840	948	943
II. Government and municipal bonds¹	157	145	145	141	127	147	137	121	55	120	132	207	239	242	213	217
III. Other portfolio investments (not controlled in country of ownership):																
Bonds and debentures:																
Railways:																
Controlled in Canada	306	285	287	286	285	284	261	256	32	24	27	42	57	50	68	73
Controlled in other countries	2	1	1	1	1	1	—	—	—	—	—	—	—	—	—	—
Other corporations:																
Controlled in Canada	46	20	23	28	19	3	4	5	16	43	51	49	41	17	17	20
Controlled in other countries	57	138	139	139	149	144	150	148	1	25	28	25	25	21	20	17
Sub-totals	411	444	450	454	454	432	415	409	49	92	106	116	123	88	105	110
Capital stock of Canadian companies:																
Companies controlled in Canada	691	910	923	935	924	860	787	708	96	260	270	287	312	320	305	283
Companies controlled in other countries	56	75	73	76	97	91	87	88	16	100	96	99	99	89	102	106
Other corporation assets: ²																
Companies controlled in Canada	2	2	1	4	5	6	30	36	1	1	5	10	7	4	4	7
Companies controlled in other countries	—	1	2	5	6	9	9	11	5	3	4	5	5	8	5	12
Total other portfolio investments	1,160	1,432	1,449	1,474	1,486	1,398	1,328	1,252	167	456	481	517	546	509	521	518
IV. Miscellaneous investments:																
Real estate, mortgages, assets administered for non-residents, private investment companies, etc.	85	177	198	200	211	223	228	221	69	213	329 ^x	498	564	633	653	706
SUMMARY																
I. Direct investments	348	1,163	1,296	1,384	1,535	1,613	1,706	1,737	61	494	539	610	788	840	948	943
II. Government and municipal bonds	157	145	145	141	127	147	137	121	55	120	132	207	239	242	213	217
III. Other portfolio investments	1,160	1,432	1,449	1,474	1,486	1,398	1,328	1,252	167	456	481	517	546	509	521	518
IV. Miscellaneous investments	85	177	198	200	211	223	228	221	69	213	329 ^x	498	564	633	653	706
Total investments	1,750	2,917	3,088	3,199	3,359	3,381	3,399	3,331	352	1,283	1,481	1,832	2,137	2,224	2,335	2,384

¹ For division into Government of Canada, provincial and municipal see Table IX.

² Includes net assets of unincorporated branches and other long-term investments.

TABLE IX. Foreign Capital Invested in Canada, Selected Year Ends, 1945-63

Classification by type of investment

Long-term investments in Canada by type of investment	A. Owned by all non-residents								B. Owned in United States							
	1945	1957	1958	1959	1960	1961	1962	1963	1945	1957	1958	1959	1960	1961	1962	1963
	millions of dollars															
Government securities:																
Dominion.....	726	501	564	612	611	657	788	899	682	342	396	383	382	416	576	695
Provincial.....	624	1,165	1,276	1,585	1,632	1,743	1,862	2,217	574	1,099	1,207	1,509	1,544	1,641	1,768	2,127
Municipal.....	312	660	781	915	1,026	1,038	1,087	1,091	194	620	741	872	977	992	1,043	1,047
Sub-totals.....	1,662	2,326	2,621	3,112	3,269	3,438	3,737	4,207	1,450	2,061	2,344	2,764	2,903	3,049	3,387	3,869
Manufacturing:																
Vegetable products.....	268	577	608	664	720	749	787	824	199	440	469	509	551	586	620	654
Animal products.....	61	108	114	128	132	145	149	162	47	96	102	115	118	132	135	147
Textiles.....	83	128	135	140	141	148	142	145	41	71	73	79	84	93	92	97
Wood and paper products.....	455	1,166	1,200	1,211	1,315	1,410	1,464	1,545	383	986	1,021	1,026	1,116	1,207	1,242	1,323
Iron and products.....	319	1,198	1,312	1,451	1,580	1,647	1,742	1,895	297	971	1,038	1,172	1,286	1,339	1,425	1,577
Non-ferrous metals.....	274	1,031	1,103	1,153	1,155	1,185	1,211	1,212	209	813	879	928	928	973	992	996
Non-metallic minerals.....	57	179	207	227	276	286	310	321	48	111	129	142	151	158	162	171
Chemicals and allied products.....	169	582	617	660	698	768	810	848	124	418	444	473	492	553	584	623
Miscellaneous manufactures.....	37	82	85	92	98	108	116	122	34	76	79	86	92	101	109	115
Sub-totals (excluding petroleum refining).....	1,723	5,051	5,381	5,726	6,115	6,446	6,731	7,074	1,382	3,982	4,234	4,530	4,818	5,142	5,361	5,703
Petroleum and natural gas.....	160	2,849	3,187	3,455	3,727	4,029	4,384	4,703	152	2,570	2,866	3,108	3,184 ^x	3,444	3,662	3,945
Other mining and smelting.....	356	1,570	1,657	1,783	1,977	2,094	2,297	2,347	277	1,307	1,386	1,513	1,701	1,821	1,998	2,054
Public utilities:																
Railways.....	1,599	1,396	1,413	1,405	1,406	1,366	1,270	1,240	720	489	489	472	479	506	472	485
Other (excluding pipelines and public enterprises).....	493	661	712	739	743	656	691	590	374	471	523	544	551	513	557	505
Sub-totals.....	2,092	2,057	2,125	2,144	2,149	2,022	1,961	1,830	1,094	960	1,012	1,016	1,030	1,019	1,029	990
Merchandising.....	220	715	784	878	872	917	972	1,003	158	508	549	612	608	629	674	698
Financial.....	525	1,782	1,938	2,190	2,380	2,616	2,688	2,847	285	1,202	1,314	1,471	1,587	1,775	1,872	2,033
Other enterprises.....	70	235	254	284	297	348	366	361	62	185	200	225	234	282	300	292
Miscellaneous investments.....	284	879	1,063 ^x	1,285	1,428	1,696	1,753	1,831	130	489	536	587	653	840	872	904
Total investments.....	7,092	17,464	19,010	20,857	22,214	23,606	24,889	26,203	4,990	13,264	14,441	15,826	16,718	18,001	19,155	20,488
	C. Owned in United Kingdom								D. Owned in all other countries							
	1945	1957	1958	1959	1960	1961	1962	1963	1945	1957	1958	1959	1960	1961	1962	1963
	millions of dollars															
Government securities:																
Dominion.....	—	64	65	60	48	50	48	34	44	95	103	169	181	191	164	170
Provincial.....	45	47	47	48	47	67	60	58	5	19	22	28	41	35	34	32
Municipal.....	112	34	33	33	32	30	29	29	6	6	7	10	17	16	15	15
Sub-totals.....	157	145	145	141	127	147	137	121	55	120	132	207	239	242	213	217
Manufacturing:																
Vegetable products.....	66	125	124	131	137	136	136	153	3	12	15	24	32	27	31	17
Animal products.....	6	6	6	7	8	7	7	8	8	6	6	6	6	6	7	7
Textiles.....	38	55	60	59	55	53	48	46	4	2	2	2	2	2	2	2
Wood and paper products.....	64	160	155	159	167	174	188	182	8	20	24	26	32	29	34	40
Iron and products.....	12	168	202	194	201	209	209	206	10	59	72	85	93	99	108	112
Non-ferrous metals.....	64	192	195	192	188	177	183	184	1	26	29	33	39	35	36	32
Non-metallic minerals.....	8	34	40	45	55	54	66	67	1	34	38	40	70	74	82	83
Chemicals and allied products.....	36	142	146	153	169	176	183	180	9	22	27	34	37	39	43	45
Miscellaneous manufactures.....	2	5	5	5	5	6	6	6	1	1	1	1	1	1	1	1
Sub-totals (excluding petroleum refining).....	296	887	933	945	985	992	1,026	1,032	45	182	214	251	312	312	344	339
Petroleum and natural gas.....	7	108	134	162	270 ^x	296	355	380	1	171	187	185	273 ^x	289	367	378
Other mining and smelting.....	60	162	171	160	152	148	184	161	19	101	100	110	124	125	115	132
Public utilities:																
Railways.....	806	784	794	783	755	699	618	584	73	123	130	150	172	161	180	171
Other (excluding pipelines and public enterprises).....	90	112	115	125	125	76	78	53	29	78	74	70	67	67	56	32
Sub-totals.....	896	896	909	908	880	775	696	637	102	201	204	220	239	228	236	203
Merchandising.....	57	174	197	225	214	238	241	250	5	33	38	41	50	50	57	55
Financial.....	186	332	360	413	469	512	487	481	54	248	264	306	324	329	329	333
Other enterprises.....	6	36	41	45	51	50	45	48	2	14	13	14	12	16	21	21
Miscellaneous investments.....	85	177	198	200	211	223	228	221	69	213	329 ^x	498	564	633	653	706
Total investments.....	1,750	2,917	3,088	3,199	3,359	3,381	3,399	3,331	352	1,283	1,481	1,832	2,137	2,224	2,335	2,384

TABLE X. Foreign Direct Investment¹ in Canada, Selected Year Ends, 1945 - 63
Classification by type of business

Direct investment in Canada by type of business	A. Owned by all non-residents								B. Owned in United States							
	1945	1957	1958	1959	1960	1961	1962	1963	1945	1957	1958	1959	1960	1961	1962	1963
	millions of dollars															
Manufacturing:																
Vegetable products	200	492	521	578	637	648	691	738	140	375	403	442	488	504	539	583
Animal products	47	98	105	119	122	135	140	153	44	89	95	108	111	125	129	141
Textiles	56	108	115	117	118	122	124	127	28	62	63	68	72	78	82	87
Wood and paper products	348	924	945	951	1,033	1,064	1,098	1,184	316	798	819	822	886	939	950	1,029
Iron and products	277	1,089	1,205	1,345	1,441	1,504	1,584	1,730	272	896	961	1,095	1,198	1,248	1,326	1,479
Non-ferrous metals	211	867	926	977	983	1,020	1,022	1,034	203	789	845	892	890	931	939	949
Non-metallic minerals	43	157	174	198	240	249	265	274	39	101	110	127	134	140	136	145
Chemical and allied products	144	561	595	637	671	741	780	822	118	405	434	460	478	538	565	605
Miscellaneous manufactures ...	33	80	82	89	97	106	115	120	31	75	76	83	91	100	109	114
Sub-totals (excluding petroleum refining)	1,359	4,376	4,668	5,011	5,342	5,589	5,819	6,182	1,191	3,590	3,806	4,097	4,348	4,603	4,775	5,132
Petroleum and natural gas	141	2,559	2,816	3,082	3,313	3,534	3,901	4,119	141	2,380	2,598	2,836	2,885 ^x	3,060	3,277	3,464
Other mining and smelting	237	1,044	1,116	1,223	1,439	1,549	1,686	1,758	215	971	1,030	1,146	1,348	1,451	1,595	1,666
Utilities (excluding pipelines)...	375	286	287	282	285	289	294	299	358	215	216	217	224	228	238	250
Merchandising	202	621	684	761	757	804	859	883	147	423	458	505	501	520	565	586
Financial	339	1,026	1,073	1,289	1,464	1,660	1,769	1,867	198	719	750	904	1,028	1,171	1,287	1,394
Other enterprises	60	217	236	258	272	312	332	326	54	174	187	207	215	251	269	262
Totals	2,713	10,129	10,880	11,906	12,872	13,737	14,660	15,434	2,304	8,472	9,045	9,912	10,549	11,284	12,006	12,754
	C. Owned in United Kingdom								D. Owned in all other countries							
	1945	1957	1958	1959	1960	1961	1962	1963	1945	1957	1958	1959	1960	1961	1962	1963
	millions of dollars															
Manufacturing:																
Vegetable products	60	110	108	117	124	123	129	146	—	7	10	19	25	21	23	9
Animal products	3	5	5	6	6	6	6	7	—	4	5	5	5	4	5	5
Textiles	26	46	51	49	45	43	41	39	2	—	1	—	1	1	1	1
Wood and paper products	30	125	125	127	138	115	133	133	2	1	1	2	9	10	15	22
Iron and products	4	147	186	180	185	191	190	190	1	46	58	70	58	65	68	61
Non-ferrous metals	8	61	63	64	65	65	60	62	—	17	18	21	28	24	23	23
Non-metallic minerals	4	26	30	34	38	37	49	49	—	30	34	37	68	72	80	80
Chemicals and allied products	19	139	143	150	162	170	177	176	7	17	18	27	31	33	38	41
Miscellaneous manufactures ...	2	4	5	5	5	5	5	5	—	1	1	1	1	1	1	1
Sub-totals (excluding petroleum refining)	156	663	716	732	768	755	790	807	12	123	146	182	226	231	254	243
Petroleum and natural gas	—	64	90	116	208 ^x	234	298	323	—	115	128	130	220 ^x	240	326	332
Other mining and smelting	22	68	77	68	66	62	67	63	—	5	9	9	25 ^x	36	24	29
Utilities (excluding pipelines)...	16	37	41	40	40	38	38	33	1	34	30	25	21	23	18	16
Merchandising	51	167	191	219	208	231	236	244	4	31	35	37	48	53	58	53
Financial	98	131	142	168	198	246	234	222	43	176	181	217	238	243	248	251
Other enterprises	5	33	39	41	47	47	43	45	1	10	10	10	10	14	20	19
Totals	348	1,163	1,296	1,384	1,535	1,613	1,706	1,737	61	494	539	610	788	840	948	943

¹ Direct investment covers investment in branches, subsidiaries, and controlled companies; the figures are part of the totals in Tables VIII and IX.

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Note: Data for 1965 are preliminary and data for 1964 are subject to revision

No.		1963	1964			
		IV	I	II	III	IV
		millions of dollars				
A	Current receipts:					
1	Merchandise exports (adjusted)	2,014	1,730	2,198	2,182	2,130
3	Gold production available for export	39	33	41	36	35
4	Travel expenditures	104	59	140	351	112
5	Interest and dividends	86	65	56	51	141
6	Freight and shipping	157	135	165	176	169
7	Inheritances and immigrants' funds	38	32	43	50	44
11	All other current receipts	118	122	124	126	130
12	Total current receipts	2,556	2,176	2,767	2,972	2,761
B	Current payments:					
1	Merchandise imports (adjusted)	1,810	1,695	2,048	1,828	1,969
4	Travel expenditures	109	150	187	238	137
5	Interest and dividends	285	236	209	204	329
6	Freight and shipping	178	137	176	189	183
7	Inheritances and emigrants' funds	53	40	45	53	52
9	Official contributions	16	12	16	22	19
11	All other current payments	224	244	234	224	233
12	Total current payments	2,675	2,514	2,915	2,758	2,922
C	Current account balance:					
1	Merchandise trade	+ 204	+ 35	+ 150	+ 354	+ 161
2	Other transactions, excluding B 9	- 307	- 361	- 282	- 118	- 303
3	Official contributions	- 16	- 12	- 16	- 22	- 19
4	Total	- 119	- 338	- 148	+ 214	- 161
D	Capital account:					
	Direct investment:					
1	Direct investment in Canada	+ 80	+ 69	+ 44	+ 52	+ 90
2	Direct investment abroad	- 33	- 44	- 68	- 3	- 25
	Canadian securities:					
3.1	Trade in outstanding bonds and debentures	- 4	+ 4	+ 14	+ 37	+ 22
3.2	Trade in outstanding common and preference stocks	- 42	- 44	- 8	- 5	- 40
4	New issues	+ 75	+ 138	+ 318	+ 117	+ 550
5	Retirements	- 87	- 109	- 100	- 57	- 92
6,7,8	Foreign securities	-	- 7	- 38	- 7	- 11
	Loans and capital subscriptions by Government of Canada:					
9	Advances, etc.	- 10	- 2	-	-	- 8
10	Repayments to Canada	+ 19	+ 4	+ 2	+ 1	+ 2
11	Columbia River Treaty, net	-	-	-	+ 54	-
13	Long-term capital transactions n.i.e.	+ 27	- 24	- 12	+ 34	+ 5
	Change in Canadian dollar holdings of foreigners:					
14.1	Deposits	+ 44	+ 20	- 9	- 36	+ 53
14.2	Government of Canada demand liabilities	+ 5	-	- 3	-	+ 3
14.3	Canadian treasury bills	- 37	+ 4	+ 14	- 16	- 18
17	Other capital movements	+ 110	+ 287	+ 62	- 229	- 189
E	Net capital movement (excluding monetary items shown below) in:					
1	Long-term forms (D1 to D13)	+ 25	- 15	+ 152	+ 223	+ 493
2	Short-term forms (D14 to D17)	+ 122	+ 311	+ 64	- 281	- 151
3	Total	+ 147	+ 296	+ 216	- 58	+ 342
H = C+E	Official monetary movements in the form of:					
1	Change in official holdings of gold and foreign exchange	+ 28	- 127	+ 62	+ 97	+ 54
2	Change in net International Monetary Fund position	-	+ 85	+ 6	+ 59	+ 127
3	Other special international financial assistance	-	-	-	-	-

Notes: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in

B 1) the annual reports on "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income,

B 11) insurance transactions, and business services.

QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

Note: Data for 1965 are preliminary and data for 1964 are subject to revision

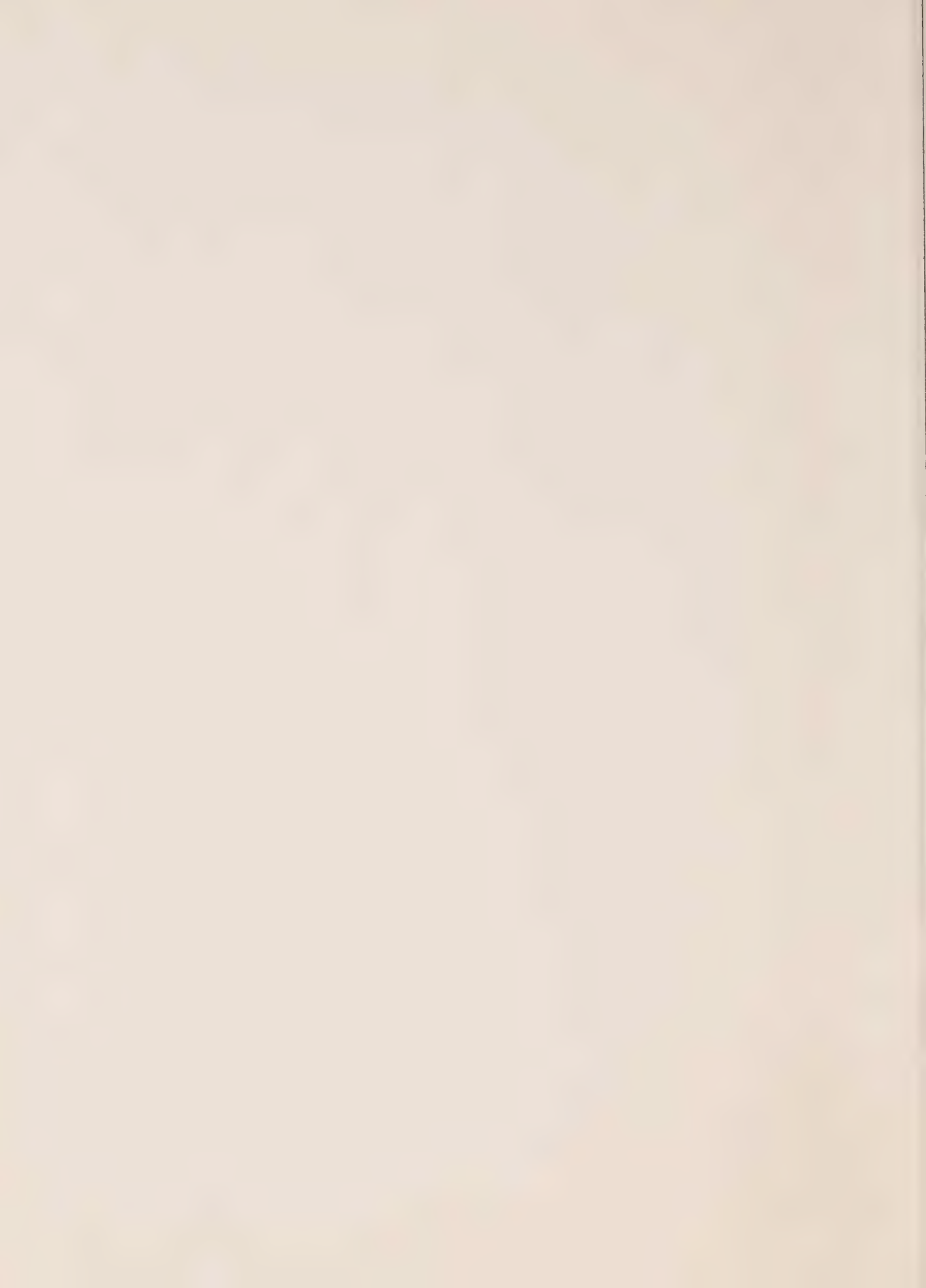
1965				Annual totals				No.
I	II	III	IV	1962	1963	1964	1965	
millions of dollars								
1,825	2,189	2,262	2,461	6,380	7,082	8,240	8,737	A
35	34	35	34	155	154	145	138	1
63	154	408	112	562	609	662	737	3
65	78	65	107	202	230	313	315	4
138	167	177	174	509	563	645	656	5
42	55	63	51	124	151	169	211	6
138	142	146	147	451	473	502	573	7
2,306	2,819	3,156	3,086	8,383	9,262	10,676	11,367	11
								12
1,867	2,217	2,107	2,445	6,203	6,579	7,540	8,636	B
152	214	273	147	605	585	712	786	1
236	247	224	341	794	860	978	1,048	4
147	192	201	196	595	648	685	736	5
40	48	60	58	175	186	190	206	6
23	20	31	18	36	65	69	92	7
242	248	250	259	849	881	935	999	9
2,707	3,186	3,146	3,464	9,257	9,804	11,109	12,503	11
								12
- 42	- 28	+ 155	+ 16	+ 177	+ 503	+ 700	+ 101	C
- 336	- 319	- 114	- 376	- 1,015	- 980	- 1,064	- 1,145	1
- 23	- 20	- 31	- 18	- 36	- 65	- 69	- 92	2
- 401	- 367	+ 10	- 378	- 874	- 542	- 433	- 1,136	3
								4
+ 70	+ 120	+ 100	+ 100	+ 495	+ 280	+ 255	+ 390	D
- 35	- 5	- 50	- 25	- 109	- 135	- 140	- 115	1
+ 3	+ 17	+ 38	+ 6	+ 64	+ 39	+ 77	+ 64	2
- 83	- 84	- 28	- 46	- 116	- 170	- 97	- 241	3.1
+ 273	+ 306	+ 298	+ 250	+ 728	+ 984	+ 1,123	+ 1,127	3.2
- 66	- 176	- 57	- 74	- 320	- 404	- 358	- 373	4
- 35	- 5	- 22	- 12	- 65	+ 22	- 63	- 74	5
-	-	-	- 16	- 22	- 18	- 10	- 16	6,7,8
+ 5	+ 2	+ 1	+ 2	+ 129	+ 25	+ 9	+ 10	9
-	-	-	+ 32	-	-	+ 54	+ 32	10
- 11	- 85	- 66	- 34	- 116	+ 14	+ 3	- 196	11
+ 38	- 37	- 19	+ 48	- 13	+ 43	+ 28	+ 30	13
- 1	- 4	- 5	+ 12	- 4	+ 1	-	+ 2	14.1
+ 27	- 10	- 2	- 3	+ 4	- 27	- 16	+ 12	14.2
+ 144	+ 329	+ 28	+ 140	+ 374	+ 34	- 69	+ 641	14.3
								17
+ 121	+ 90	+ 214	+ 183	+ 668	+ 637	+ 853	+ 608	E
+ 208	+ 278	+ 2	+ 197	+ 361	+ 51	- 57	+ 685	1
+ 329	+ 368	+ 216	+ 380	+ 1,029	+ 688	+ 796	+ 1,293	2
								3
- 118	- 92	+ 144	+ 55	+ 537	+ 60	+ 86	- 11	H = C+E
+ 46	+ 93	+ 82	- 53	- 378	+ 86	+ 277	+ 168	1
-	-	-	-	- 4	-	-	-	2
								3

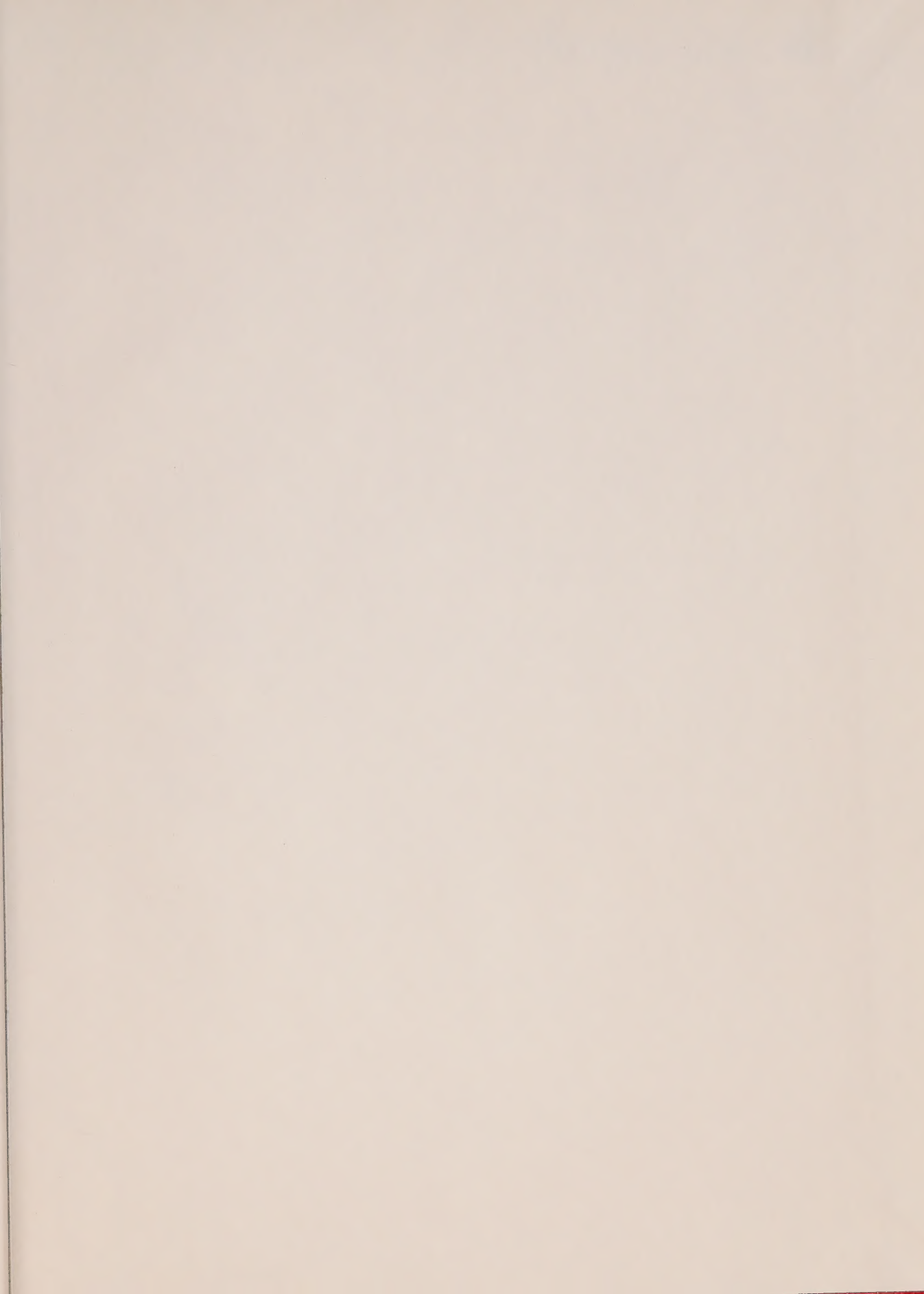
Notes: D A minus sign indicates an outflow of capital from Canada.

D 1,2 Exclusive of undistributed profits.

D 17 This item includes mainly changes in private and chartered bank holdings of exchange, international money market transactions, loans, and changes in open account commercial indebtedness. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.

H 3 A minus sign indicates a receipt by Canada.





BINDING SECT. AUG 3 1978

